Ingredion Inc
Form DEF 14A
April 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under §240.14a-12

Ingredion Incorporated

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
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(2) Aggregate number of securities to which transaction applies:
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(4) Proposed maximum aggregate value of transaction:
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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:
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(2) Form, Schedule or Registration Statement No.:
N/A

(3) Filing Party:
N/A

(4) Date Filed:
N/A

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5 Westbrook Corporate Center, Westchester, Illinois 60154

April 8, 2014

Dear Stockholder:

It is my pleasure to invite you to Ingredion Incorporated s 2014 Annual Meeting of Stockholders. This year s meeting will be held on Wednesday, May 21, 2014, at the Westbrook Corporate Center Meeting Facility, which is located on the ground floor of the annex between Towers 2 and 5 of the Westbrook Corporate Center (near the southwesterly corner of the intersection of Cermak Road and Wolf Road), in Westchester, Illinois. The annual meeting will be held solely to vote on each of the matters described in the proxy statement, which follows. We do not expect any other business will be transacted.

We are pleased again to be taking advantage of the Securities and Exchange Commission rule that allows companies to furnish proxy materials to their stockholders on the Internet. This rule allows us to provide our stockholders with the information they need, while lowering the costs of delivery and reducing the environmental impact of our annual meeting. On April 8, 2014, we mailed to most of our stockholders a notice containing instructions on how to access our proxy statement and 2013 Annual Report to Stockholders and to vote online. Other stockholders continue to receive a copy of the proxy statement and annual report by mail. The notice and the proxy statement contain instructions on how you can request a paper or e-mail copy of the proxy statement and annual report, if you only received a notice by mail, and the proxy statement contains instructions on how you can elect to receive your proxy statement and annual report electronically by e-mail, if you received them by mail this year.

Your vote is important, whether or not you plan to attend the meeting, and we encourage you to vote promptly. You may vote your shares on the Internet or via a toll-free telephone number. Alternatively, if you received a paper copy of the proxy card by mail, you may sign, date and mail the proxy card in the envelope provided. Instructions regarding all three methods of voting are contained in the proxy statement and the proxy card. Note also that if you hold your shares through a bank, broker or other holder of record, you may vote your shares in accordance with your voting instruction form or notice provided by the record holder.

We look forward to seeing you at the annual meeting.

Sincerely,

Ilene S. Gordon

Chairman, President and

Chief Executive Officer

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Ingredion Incorporated

5 Westbrook Corporate Center

Westchester, Illinois 60154

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The 2014 Annual Meeting of Stockholders of Ingredion Incorporated will be held at the Westbrook Corporate Center Meeting Facility, which is located on the ground floor of the annex between Towers 2 and 5 of the Westbrook Corporate Center (near the southwesterly corner of the intersection of Cermak Road and Wolf Road), in Westchester, Illinois, on Wednesday, May 21, 2014, at 9:00 a.m., local time, for the following purposes:

- to elect the ten director nominees who are named in the attached proxy statement, all of whom are directors whose terms as directors are expiring at the annual meeting, to serve as directors for a term of one year,
- to approve, by advisory vote, the compensation of the company s named executive officers,
- to amend and reapprove the Ingredion Incorporated Stock Incentive Plan,
- to ratify the appointment of KPMG LLP as the independent registered public accounting firm of the company and its subsidiaries, in respect of the company s operations in 2014 and
- to transact other business, if any, that is properly brought before the meeting or any adjournment or adjournments thereof.

Stockholders of record at the close of business on March 24, 2014 will be entitled to vote at the meeting and at any adjournment or adjournments of the meeting.

Attendance at the meeting will be limited to stockholders, those holding proxies from stockholders and invited guests from the media and financial community. A list of the stockholders entitled to vote at the meeting will be open to examination by any stockholder for any purpose germane to the meeting for ten days before the meeting during ordinary business hours at the company s offices at 5 Westbrook Corporate Center, Westchester, Illinois 60154.

This proxy statement and our annual report to stockholders and the proxy are being made available to stockholders on or about April 8, 2014.

Your vote is important. Whether or not you expect to attend the annual meeting, please ensure that your vote will be counted by voting on the Internet or by toll-free telephone number, as described in the enclosed materials. Alternatively, if you received a copy of the proxy card by mail, you may sign, date and mail the proxy card in the envelope provided. If you hold your shares through a bank, broker or other holder of record, you may vote your shares in accordance with your voting instruction form or notice provided by the record holder.

By order of the Board of Directors,

Christine M. Castellano

Senior Vice President, General Counsel, Corporate

Secretary and Chief Compliance Officer

April 8, 2014

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 21, 2014

The Notice and Proxy Statement and Annual Report to Stockholders are available at www.proxyvote.com

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ADMISSION TO THE 2014 ANNUAL MEETING

An admission ticket (or other proof of stock ownership) will be required for admission to the annual meeting. **Only stockholders who own Ingredion common stock as of the close of business on March 24, 2014 will be entitled to attend the meeting. An admission ticket will serve as verification of your ownership.**

- If you received in the mail a notice of availability of the proxy materials electronically on the Internet, the notice constitutes your admission ticket.

- If your Ingredion shares are registered in your name and you received an e-mail with instructions containing a link to the website where those materials are available and a link to the proxy voting website, you may print a copy of the e-mail which will serve as your admission ticket.

- If your Ingredion shares are held in a bank or brokerage account, vote your shares in accordance with your voting instruction form, if one is provided by your bank or broker, or contact your bank or broker to obtain a written legal proxy in order to vote your shares at the meeting. If you do not obtain a legal proxy from your bank or broker, you will not be entitled to vote your shares at the meeting, but you can still attend the annual meeting if you bring a recent bank or brokerage statement showing that you owned shares of Ingredion common stock on March 24, 2014.

- If your Ingredion shares are registered in your name and you received proxy materials by mail, an admission ticket is attached to your proxy card.

You must present your admission ticket at the door for admission for yourself and one guest. Seating will be on a first-come, first-served basis, and you may be asked to present valid picture identification before being admitted.

The use of cameras at the annual meeting is prohibited, and they will not be allowed in the meeting room, except by credentialed media. We realize that most cellular phones have built-in digital cameras. While these phones may be brought into the room, the camera function may not be used at any time. No recording devices, large packages, luggage or bags will be permitted in the meeting room.

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Ingredion Incorporated

5 Westbrook Corporate Center

Westchester, Illinois 60154

PROXY STATEMENT

General Information

Why am I receiving these materials?

The Board of Directors of Ingredion Incorporated (the Board of Directors or the board) is soliciting proxies to be voted at the Annual Meeting of Stockholders (the annual meeting) to be held on Wednesday, May 21, 2014, and at any adjournment or adjournments of the annual meeting. When we ask you for your proxy, we must provide you with a proxy statement and an annual report to stockholders that contain certain information specified by law. Our Board of Directors has made these materials available to most of our stockholders on the Internet or, if you have previously requested to receive paper copies or you are a participant in one of the Ingredion Incorporated Retirement Savings Plans, has delivered paper copies of these materials to you by mail, in connection with the board s solicitation of proxies for use at our 2014 annual meeting. Our stockholders are invited to attend the annual meeting and are requested to vote on the proposals described in this proxy statement. In this proxy statement we refer to Ingredion Incorporated as Ingredion, the company, the Company, the corporation, the Corporation, we or us.

What is included in these materials?

These materials include:

- this proxy statement for the annual meeting and
- our 2013 Annual Report to Stockholders, which includes our audited consolidated financial statements.

If you received paper copies of these materials by mail, these materials also include the proxy card for the annual meeting.

Why did I receive a notice in the mail regarding the Internet availability of the proxy materials instead of a paper copy of the proxy materials?

This year, we are pleased again to be using the Securities and Exchange Commission (SEC) rule that allows companies to furnish their proxy materials over the Internet. As a result, we are mailing to most of our stockholders a notice about the Internet availability of the proxy materials (notice of availability) instead of a paper copy of the proxy materials. All stockholders receiving the notice of availability will have the ability to access the proxy materials over the Internet and request to receive a paper copy of the proxy materials by mail. Instructions on how to access the proxy materials over the Internet or to request a paper copy may be found in the notice of availability. In addition, this proxy statement contains instructions on how stockholders may request to receive proxy materials in paper form by mail or electronically by e-mail on an ongoing basis.

Why didn t I receive a notice about the Internet availability of the proxy materials?

We are providing some of our stockholders, including stockholders who have previously requested to receive paper copies of the proxy materials and our stockholders who are participants in the Ingredion Incorporated Retirement Savings Plans, with paper copies of the proxy materials instead of a notice of availability of the proxy materials.

How can I access the proxy materials over the Internet?

Your notice of availability of the proxy materials, proxy card or voting instruction form contains instructions on how to view our proxy materials for the annual meeting on the Internet.

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Our proxy materials are also available on our website at http://www.ingredion.com. If you received your proxy materials in the mail, you can instruct us to send our future proxy materials to you electronically by e-mail on the website where you can vote and on our website. Choosing to receive your future proxy materials by e-mail will help us conserve natural resources and reduce the costs of printing and distributing our proxy materials. If you choose to receive future proxy materials by e-mail, you will receive an e-mail with instructions containing a link to the website where those materials are available and a link to the proxy voting website. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

How may I obtain a paper copy of the proxy materials?

Stockholders receiving a notice about the Internet availability of the proxy materials will find instructions about how to obtain a paper copy of the proxy materials in their notices. All stockholders who do not receive the notice of availability and have not elected to receive proxy materials by e-mail will receive a paper copy of the proxy materials by mail.

What will the stockholders vote on at the annual meeting?

Four proposals:

- election of the ten director nominees who are named in this proxy statement, all of whom are directors whose terms as directors are expiring at the annual meeting, to serve as directors for a term of one year,
- approval, by advisory vote, of the compensation of the company s named executive officers,
- amendment and reapproval of the Ingredion Incorporated Stock Incentive Plan and
- ratification of the appointment of our independent registered public accounting firm.

Will there be any other items of business on the agenda?

We do not expect any other items on the agenda because the deadlines for stockholder proposals and notices to present business at the annual meeting, including, without limitation, nominations, have already passed. Nonetheless, in case there is any unforeseen need, the accompanying proxy gives discretionary authority to the persons named in the proxy with respect to other matters that might be brought before the meeting. Those persons intend to vote the proxy as to such matters in accordance with their best judgment.

Who is entitled to vote?

Stockholders as of the close of business on March 24, 2014 (the record date) may vote at the annual meeting. You have one vote for each share of common stock you held on the record date, including shares:

- held directly in your name as a stockholder of record,

held in your account with a bank, broker or other nominee or

attributed to your account(s) in the Ingredion Incorporated Stock Fund of the company s Retirement Savings Plans or the company s automatic dividend reinvestment plan.

What constitutes a quorum for the annual meeting?

A majority of the voting power of the outstanding shares of our common stock, entitled to vote and present or represented by proxy at the annual meeting, will constitute a quorum for the annual meeting. As of the record date, 74,514,968 shares of our common stock were issued and outstanding.

How many votes are required for the approval of each proposal?

Under our by-laws, in uncontested elections, directors are elected by a majority of the votes cast. In contested elections where the number of nominees exceeds the number of directors to be elected,

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directors are elected by a plurality vote, with the director nominees who receive the most votes being elected. In an uncontested election, if any nominee for director does not receive a majority of votes cast for his or her election, the nominee will be required to promptly tender his or her offer of resignation to the board. Our Corporate Governance and Nominating Committee will recommend to the board whether to accept or reject the tendered offer of resignation. Our board will act on the committee s recommendation and publicly disclose its decision generally within 90 days from the date of the certification of the election results. Any director who tenders his or her offer of resignation will not participate in the committee s recommendation or the board action regarding whether to accept or reject the tendered offer of resignation. If all of the members of the Corporate Governance and Nominating Committee have tendered their offers of resignation, then the Board shall act on the offers of resignation. Any vacancies on our board may be filled by a majority of the directors then in office. Abstentions are not counted as votes cast and therefore will result in a nominee receiving fewer votes but will not count as votes against a nominee.

The favorable vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote is required to approve the compensation of the company s named executive officers. A vote to abstain on this proposal will be counted as present for quorum purposes and will be considered as being present for the vote on this proposal, but it will not be counted as a vote cast for this proposal and will, therefore, have the effect of a vote against this proposal. Because your vote is advisory, it will not be binding on the board or the company. However, the board and the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation.

The favorable vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote is required to approve the proposal to amend and reapprove the Ingredion Incorporated Stock Incentive Plan. A vote to abstain on this proposal will be counted as present for quorum purposes and will be considered as being present for the vote on this proposal, but it will not be counted as a vote cast for this proposal and will, therefore, have the effect of a vote against this proposal.

The favorable vote of a majority of the shares present at the meeting in person or by proxy and entitled to vote is required to approve the ratification of the appointment of our independent registered public accounting firm. A vote to abstain on this proposal will be counted as present for quorum purposes and will be considered as being present for the vote on this proposal, but it will not be counted as a vote cast for this proposal and will, therefore, have the effect of a vote against this proposal. Because your vote is advisory, it will not be binding on the board or the company. If the appointment is not ratified, the Audit Committee will explore the reasons for stockholder rejection and will reconsider the appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time during the year if the Audit Committee determines that it would be in the company s and our stockholders best interests.

Broker nonvotes. If your shares are held by a broker, the broker will ask you how you want your shares to be voted. If you give the broker instructions, your shares will be voted as you direct. If you do not give instructions, one of two things can happen, depending on the type of proposal. For the election of directors, the advisory vote on the compensation of the company s named executive officers and the approval of the amendment and reapproval of the Ingredion Incorporated Stock Incentive Plan, the broker may not vote your shares unless it has received your specific instructions. For the vote to ratify the appointment of auditors, the broker may vote your shares in its discretion even though you have not provided specific instructions. For other proposals, none of which are anticipated, the broker may not vote your shares. When the broker may not vote your shares, it is called a broker nonvote.

Broker nonvotes will be counted for purposes of establishing a quorum but will not be counted as entitled to vote on any matter for which instructions are required.

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How do I vote?

If you are a stockholder of record or are holding a proxy for a stockholder of record, you may vote in person at the annual meeting. We will give you a ballot during the meeting. If you do not wish to vote in person or if you will not be attending the annual meeting, you may vote by proxy. You can vote by proxy on the Internet by following the instructions provided in the notice of availability of the proxy materials, or, if you received these materials electronically, by following the instructions in the e-mail message that notified you of their availability. If you received paper copies of the proxy materials by mail, you can vote on the Internet, by telephone or by mail by following the instructions on the enclosed proxy card.

You can utilize these methods to vote:

By the Internet. You may vote online at www.proxyvote.com by following the instructions provided in the notice of availability of the proxy materials or, if you received these materials electronically, by following the instructions in the e-mail message that notified you of their availability, or, if you received these materials by mail, by following the instructions in the enclosed proxy card. You will need your 12-digit control number contained on your notice of availability, e-mail notification or proxy card in order to vote online. Voting on the Internet has the same effect as voting by mail or telephone. Internet voting will be available until 11:59 p.m. Eastern Time on May 20, 2014.

By telephone. You may vote by telephone at 1-800-690-6903. You will need the 12-digit control number contained on your notice of availability, e-mail notification or proxy card in order to vote by telephone. Voting by telephone has the same effect as voting by mail or the Internet. Telephone voting will be available until 11:59 p.m. Eastern Time on May 20, 2014.

By mail. If you received a paper copy of the proxy materials, you may vote by signing and dating each proxy card you receive and returning each of them to us in the prepaid envelope provided. Sign your name exactly as it appears on the proxy. If you are signing in a representative capacity (for example, as an attorney-in-fact, executor, administrator, guardian, trustee or the officer, agent or partner of a corporation or partnership), please indicate your name and your title or capacity. If the stock is held in custody for a minor (for example, under the Uniform Transfers to Minors Act), the custodian should sign, not the minor.

Can I change my vote after I have voted?

You may revoke your proxy and change your vote at any time before the final vote at the meeting. You may vote again at a later date on the Internet or by telephone, by signing and returning a new proxy card with a later date or by attending the meeting and voting in person. Only your latest Internet, telephone or written proxy submitted prior to the meeting will be counted. You may revoke your proxy at any time before the meeting by (1) notifying the company s Corporate Secretary in writing or (2) delivering a later-dated proxy on the Internet or by telephone or in writing. However, your attendance at the annual meeting will not automatically revoke your proxy unless you vote again at the meeting or specifically request in writing that your prior proxy be revoked. Any written notice revoking a proxy should be sent to Christine M. Castellano, Corporate Secretary, Ingredion Incorporated, 5 Westbrook Corporate Center, Westchester, Illinois 60154.

How do I vote shares that are held by my broker?

If you have shares held by a broker or other nominee, you may instruct your broker or other nominee to vote your shares by following instructions that the broker or nominee provides for you. Most brokers offer voting on the Internet, by telephone and by mail.

How do I vote in person?

If you are a stockholder of record, you may vote your shares in person at the meeting. However, we encourage you to vote on the Internet, by telephone or by mail even if you plan to attend the meeting.

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How will the proxies be voted?

The shares represented by all valid proxies received by Internet, by telephone or by mail will be voted in the manner specified. If you fail to indicate your voting preferences, the persons named in the proxy will vote on your behalf for the election of the nominees for director listed below, for approval of the compensation of the company s named executive officers, for amendment and reapproval of the Ingredion Incorporated Stock Incentive Plan and for the ratification of the appointment of our independent registered public accounting firm.

Should any matter not described above be properly presented at the meeting, the persons named in the proxy card will vote in accordance with their best judgment.

How do I vote my shares in the Ingredion Incorporated Stock Fund of the company s Retirement Savings Plans?

You may instruct the plan trustee on how to vote your shares in the Ingredion Incorporated Stock Fund on the Internet, by telephone or by mail as described above. You must provide your instruction on the Internet or by telephone no later than 11:59 p.m. Eastern Time on May 16, 2014 or by mail received no later than 11:59 p.m. Eastern Time on May 16, 2014 in order to have your shares in the Ingredion Incorporated Stock Fund voted at the annual meeting.

How many shares in the Ingredion Incorporated Stock Fund of the company s Retirement Savings Plans can I vote?

You may vote all the shares allocated to your account on the record date.

What happens if I do not vote my Retirement Savings Plan shares?

Your shares will not be voted. The plan trustee will not vote shares held in the Retirement Savings Plans as to which it does not receive timely directions.

What does it mean if I receive more than one notice of availability or proxy card?

It means that you hold shares in more than one account. To ensure that all your shares are voted, if you vote on the Internet or by telephone, you will need to vote once for each notice of availability, proxy card and voting instruction form you receive. To ensure that all your shares are voted if you received more than one proxy card, sign, date and return each card or vote once for each card on the Internet or by telephone.

Who tabulates the votes?

The votes are tabulated by an independent inspector of election.

Is my vote confidential?

As a matter of policy, proxies, ballots and voting tabulations that identify individual stockholders are held confidential by the company. Such documents are available for examination only by any independent tabulation agents, the independent inspector of election and certain employees associated with tabulation of the vote. The identity of the vote of any stockholder is not disclosed except as may be necessary to meet legal requirements.

What should I do if I want to attend the annual meeting in person?

An admission ticket (or other proof of stock ownership) will be required for admission to the annual meeting. **Only stockholders who own Ingredion common stock as of the close of business on March 24, 2014 will be entitled to attend the meeting. An admission ticket will serve as verification of your ownership.**

If you received a notice of availability of the proxy materials in the mail, the notice constitutes your admission ticket.

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If your Ingredion shares are registered in your name and you received an e-mail with instructions containing a link to the website where those materials are available and a link to the proxy voting website, you may print a copy of the e-mail which will serve as your admission ticket.

If your Ingredion shares are held in a bank or brokerage account, vote your shares in accordance with your voting instruction form, if one is provided by your bank or broker, or contact your bank or broker to obtain a written legal proxy in order to vote your shares at the meeting. If you do not obtain a legal proxy from your bank or broker, you will not be entitled to vote your shares at the meeting, but you can still attend the annual meeting if you bring a recent bank or brokerage statement showing that you owned shares of Ingredion common stock on March 24, 2014.

If your Ingredion shares are registered in your name and you received proxy materials by mail, an admission ticket is attached to your proxy card.

How do I contact the Board of Directors?

Interested parties may communicate directly with any member of the Board of Directors, including the lead director, or the non-management directors or the independent directors, as a group, by writing in care of:

Corporate Secretary

Ingredion Incorporated

5 Westbrook Corporate Center

Westchester, Illinois 60154

The Corporate Secretary will collect all such communications and organize them by subject matter. All such communications will be promptly forwarded to the appropriate board committee chairman according to the subject matter of the communication, except for solicitations or other matters inappropriate for the recipient or otherwise unrelated to the company. Communications addressed directly to the lead director, the non-management directors or the independent directors, as a group, or any individual director will be forwarded in the same manner to the lead director, each non-management member of the board, each independent member of the board or the individual director, as the case may be.

Who is paying for the costs of this proxy solicitation?

Ingredion is paying the costs of the solicitation of proxies. We have retained Morrow & Co., LLC, a proxy soliciting firm, to assist in the solicitation of proxies, for an estimated fee of $8,000 plus reimbursement of certain out-of-pocket expenses. We must pay brokerage firms and other persons representing beneficial owners of shares held in street name certain fees associated with:

forwarding the notice of availability to beneficial owners,

forwarding paper proxy materials by mail to beneficial owners and

obtaining beneficial owners voting instructions.

In addition to soliciting proxies by the Internet and mail, our board members, officers and employees may solicit proxies on our behalf, without additional compensation, personally, by e-mail or by telephone.

How do I submit a stockholder proposal for the 2015 annual meeting?

Our 2015 annual meeting is scheduled for Wednesday, May 20, 2015. If a stockholder intends to present a proposal pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act) at the 2015 annual meeting and wishes to have the proposal included in the company s proxy statement for the 2015 annual meeting, he or she must submit the proposal in writing so that we receive it by December 9, 2014, unless the date of our 2015 annual meeting is more than thirty days before or after May 20, 2015, in which case the

proposal must be received a reasonable time before we begin to print and mail our proxy materials for our 2015 annual meeting. Proposals should be addressed to our Corporate Secretary, Ingredion Incorporated, 5 Westbrook Corporate Center, Westchester, Illinois 60154. Any stockholder proposal submitted for inclusion must be eligible for inclusion in our proxy statement in accordance with the rules and regulations promulgated by the SEC.

In addition, our by-laws provide that any stockholder wishing to present any other business at the annual meeting must give the company written notice not less than ninety nor more than one hundred twenty days in advance of the date which is the anniversary of the date that this proxy statement was released, or, if the date of the annual meeting has been changed by more than thirty days from the date contemplated at the time of the previous year s proxy statement, not less than ninety days before the date of the applicable annual meeting. That notice must provide certain other information as described in our by-laws. There are other procedural requirements in our by-laws pertaining to stockholder nominations and proposals. A copy of the by-laws is available online in the Governance section of our website at http://www.ingredion.com. Any stockholder may also receive a current copy of our by-laws, without charge, by writing to our Corporate Secretary.

I share an address with another stockholder and received one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

The SEC s rules permit us to deliver a single set of annual meeting materials to one address shared by two or more of our stockholders. This delivery method is referred to as householding and can result in significant cost savings with respect to holders who want to receive paper materials. To take advantage of this opportunity, we have delivered only one proxy statement and annual report to multiple stockholders who share an address, unless we received contrary instructions from the affected stockholders prior to the mailing date. This procedure saves printing and postage costs by reducing duplicative mailings. We agree to deliver promptly, upon written or oral request, a separate copy of the annual meeting materials, as requested, to any stockholder at the shared address to which a single copy of these documents was delivered. If you prefer to receive separate copies of the proxy statement or annual report, contact Broadridge Financial Solutions, Inc. at (800) 542-1061 or in writing at Broadridge Householding Department, 51 Mercedes Way, Edgewood, New York 11717. Please also keep in mind that this proxy statement and the accompanying 2013 Annual Report to Stockholders will be published and available for viewing and copying in the Investors section of our website at http://www.ingredion.com, in addition to being available at the site stated in the notice of availability.

If you are currently a stockholder sharing an address with another stockholder and wish to receive only one copy of future proxy statements and annual reports for your household, please contact Broadridge Financial Solutions at the above telephone number or address.

Stockholders who participate in householding and request to receive paper copies of the proxy materials will continue to receive separate proxy cards. Householding will not affect dividend check mailings.

Beneficial stockholders can request information about householding from their banks, brokers or other holders of record.

Proposal 1. Election of Directors

The terms of all twelve of our directors are expiring at the annual meeting. Ten of these twelve directors are nominated for election as directors, with each nominee to hold office for a one-year term expiring at our 2015 annual meeting. Each director who is elected by our stockholders will hold office until his or her successor has been elected and qualified or until the director s earlier death, resignation or removal. Richard J. Almeida and James M. Ringler,

each having served as a director for 12 years, were not nominated to stand for re-election at the annual meeting. Our board extends sincere gratitude to Messrs. Almeida and Ringler for over 12 years of service. Mr. Almeida, our lead director and chairman of our Corporate Governance and Nominating Committee and formerly chairman of our Compensation Committee, and Mr. Ringler, formerly chairman of our Audit Committee, have worked diligently to provide the board with astute and independent insight and advice. The

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Board of Directors will be reduced from 12 directors to ten directors effective at our 2014 annual meeting of stockholders. All of the nominees standing for election are listed on pages 8 to 12, with brief biographies.

All of the nominees for election have consented to being named in this proxy statement and to serve if elected. If, for any reason, any of the nominees cannot be a candidate for election at the annual meeting, the proxies will be voted for substitute nominees designated by the board unless it has further reduced its membership prior to the annual meeting. The board does not anticipate that any of the nominees will be unavailable to serve if elected. If elected, the nominees will hold office until the 2015 annual meeting of stockholders and until their successors have been elected and have qualified.

LUIS ARANGUREN-TRELLEZ

Age 52

Director since May 2003

Member of the Audit Committee

Executive President of Arancia, S.A. de C.V.

Mr. Aranguren-Trellez has been, since September 5, 2011, the Executive President and a director of Arancia, S.A. de C.V., and he has served as the Executive President and a director of Arancia Industrial, S.A. de C.V. since June 1, 2000. These are holding companies with interests in the food and enzyme industries, special textile rent to hospital sector, food service and logistics, as well as energy efficiency and smart meters businesses. Arancia and Arancia Industrial are Mexican companies that are owned by Mr. Aranguren-Trellez and his brothers. Arancia Industrial was the former joint venture partner with the company in corn wet milling and refining operations in Mexico. Previously, Mr. Aranguren-Trellez served as Operations Director of CPIngredientes, S.A. de C.V., Ingredion s Mexican subsidiary, from 1996 until 2000, and had served in various other management positions with that company and its predecessors since 1989. Mr. Aranguren-Trellez is Chairman of PFS de Mexico, S.A. de C.V., a private Mexican company in the food service and logistics area controlled by Arancia. Mr. Aranguren-Trellez is also a member of the Regional Consulting Board of Telefonos de Mexico, S.A. de C.V., as well as of Banco Nacional de Mexico, S.A., the Citicorp Mexican bank subsidiary. Mr. Aranguren-Trellez is also a member of the investment committee of NAFTA Fund of Mexico, L.P., a Canadian private equity firm. He holds a Bachelor s degree in chemical engineering from the University of Notre Dame and a Master of Business Administration degree from Harvard Business School.

DAVID B. FISCHER

Age 51

Director since May 2013

Member of the Compensation Committee

President and Chief Executive Officer of Greif, Inc.

Mr. Fischer has served as Chief Executive Officer and a director of Greif, Inc. since November 1, 2011 and as President of Greif, Inc. since October 2007. Greif, Inc. is a manufacturer and provider of industrial packaging and services including steel, fiber, flexible, corrugated, intermediate bulk, reconditioned and multiwall containers and containerboard, and filing, packaging, industrial packaging reconditioning and land management consulting services for a wide range of industries. From 2007 to October 2011, Mr. Fischer also served as Chief Operating Officer of Greif, Inc. From 2004 to 2007, Mr. Fischer served as Senior Vice President and Divisional President, Industrial Packaging & Services Americas, which also included responsibility for Africa. He assumed additional responsibility for Australia and Asia in 2005 and 2006, respectively. Mr. Fischer is also a director and member of the audit and compensation committees of Balchem Corporation, a manufacturer of performance ingredients and products for the food, nutritional, feed, pharmaceutical and medical sterilization industries. He also serves as a director of the following not-for-profit entities: the Institute of International Education, The Ohio State University Wexner Medical Center and the Zanmi Beni Foundation. Mr. Fischer holds a Bachelor s degree in chemistry from Purdue University.

ILENE S. GORDON

Age 60

Director since May 2009

Chairman, President and Chief Executive Officer of the Company

Ms. Gordon has been Chairman of the Board, President and Chief Executive Officer of the company since May 4, 2009. She was President and Chief Executive Officer of Rio Tinto s Alcan Packaging, a multinational business unit engaged in flexible and specialty packaging, from October 2007 until she took office as Chairman of the Board, President and Chief Executive Officer of the company. From December 2006 to October 2007, Ms. Gordon was a Senior Vice President of Alcan Inc. and President and Chief Executive Officer of Alcan Packaging. Alcan Packaging was acquired by Rio Tinto in October 2007. From 2004 until December 2006, Ms. Gordon served as President of Alcan Food Packaging Americas, a division of Alcan Inc. From 1999 until Alcan s December 2003 acquisition of Pechiney Group, Ms. Gordon was a Senior Vice President of Pechiney Group and President of Pechiney Plastic Packaging, Inc., a global flexible packaging business. Prior to joining Pechiney in June 1999, Ms. Gordon spent 17 years with Tenneco Inc., where she most recently served as Vice President and General Manager, heading up Tenneco s folding carton business. Ms. Gordon also serves as a director of International Paper Company, a global paper and packaging company. She served as a director of Arthur J. Gallagher & Co., an international insurance brokerage and risk management business, from 1999 to May 2013 and as a director of United Stationers Inc., a wholesale distributor of business products and a provider of marketing and logistics services to resellers, from January 2000 until May 2009. Ms. Gordon also serves as a director of Northwestern Memorial Hospital, The Executives Club of Chicago, the Economic Club of Chicago, The Chicago Council on Global Affairs and World Business Chicago. She is also a trustee of The Conference Board. Ms. Gordon holds a Bachelor s degree in mathematics from the Massachusetts Institute of Technology (MIT) and a Master s degree in management from MIT s Sloan School of Management.

PAUL HANRAHAN

Age 56

Director since March 2006

Chairman of the Compensation Committee

Chief Executive Officer of American Capital Energy & Infrastructure Management, LLC

Mr. Hanrahan has been the Chief Executive Officer of American Capital Energy & Infrastructure Management, LLC, an investment company formed to raise, invest and manage funds in the energy and infrastructure industries, since September 2012. Mr. Hanrahan served as the President and Chief Executive Officer of The AES Corporation, one of the world s leading independent power producers, from June 2002 to September 2011. He was Executive Vice President and Chief Operating Officer of The AES Corporation and President and Chief Executive Officer of AES China Generating Co., Ltd., a public company formerly listed on NASDAQ, from 1993 until June 2002. Mr. Hanrahan served as a director of The AES Corporation from June 2002 to September 2011. He also previously served on the boards of other major publicly listed utilities in Brazil, Chile and Venezuela. In 2009 Mr. Hanrahan was

appointed by the White House to serve on the U.S.- India CEO forum. Mr. Hanrahan serves as a director of Arch Coal, Inc., a top five global coal producer and marketer; AquaVentures Holdings, LLC, a maker of water management systems; Azura Power Holdings Limited, an electric power generation company in Nigeria; and GreatPoint Energy, Inc., a producer of clean, low-cost natural gas from coal, petroleum coke and biomass. He holds a Bachelor of Science degree in mechanical engineering from the U.S. Naval Academy and a Master of Business Administration degree from Harvard Business School.

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WAYNE M. HEWETT

Age 49

Director since September 2010

Member of the Audit Committee

President and Chief Executive Officer of Arysta LifeScience Corporation

Mr. Hewett has served as President and Chief Executive Officer of Arysta LifeScience Corporation, the world s largest privately held crop protection and life science company, since January 2010. Mr. Hewett joined Arysta LifeScience in October 2009 as Chief Operating Officer. He served as a senior consultant to GenNx360, a private equity firm focused on sponsoring buyouts of middle market companies, from February 2009 to August 2009. Mr. Hewett served as Vice President, Supply Chain and Operations of General Electric Company (GE), a diversified technology, media and financial services company, from October 2007 to December 2008. He served as President and Chief Executive Officer of Momentive Performance Materials, Inc., a global leader in silicones and advanced materials, from December 2006 to June 2007. From 2005 to December 2006, Mr. Hewett served as President and Chief Executive Officer of GE Advanced Materials, a global leader in providing a range of high-technology materials solutions that was renamed Momentive Performance Materials, Inc. after it was acquired by Apollo Management, a private equity firm. Prior thereto Mr. Hewett s career included more than 15 years with various international divisions of GE, including serving as the President, GE Plastics Pacific. Mr. Hewett, who has lived in Japan and in China, was also a member of GE s Corporate Executive Council. Mr. Hewett serves as a director of Arysta LifeScience Corporation. He holds Bachelor of Science and Master of Science degrees in industrial engineering from Stanford University.

RHONDA L. JORDAN

Age 56

Director since November 2013

Member of the Compensation Committee

Former President, Global Health & Wellness, and Sustainability of Kraft Foods Inc.

Ms. Jordan served as President, Global Health & Wellness, and Sustainability of Kraft Foods Inc., one of the largest consumer packaged food and beverage companies in North America and one of the largest worldwide among publicly traded consumer packaged food and beverage companies, from September 2010 until March 2012 and in that role led the development of Kraft s health & wellness and sustainability strategies and plans for that company, including marketing, product development, technology, alliances and acquisitions. Prior to being named President, Health & Wellness in September 2010, Ms. Jordan was the President of the Cheese and Dairy business unit of Kraft from January 2008 to September 2010. From 2006 to January 2008 she served as the President of the Grocery business unit of Kraft, and from 2004 to 2005 she was the Senior Vice President, Global Marketing of Kraft Cheese and Dairy. Ms. Jordan is a director of Colfax Corporation, a diversified global industrial manufacturing and engineering company that provides gas- and fluid-handling and fabrication technology products and services to commercial and governmental customers around the world under the Howden, ESAB and Colfax Fluid Handling brand names, and

Bush Brothers & Company, a significant, privately held branded vegetable processor. She also serves as a director of IES Abroad, a not-for-profit company providing study abroad programs for a consortium of U.S. colleges and universities, and the Chicago Chapter of the National Association of Corporate Directors. She holds a Bachelor of Arts degree in arts management from Northwestern University and a Masters of Business Administration degree from the Kellogg School of Management at Northwestern University.

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GREGORY B. KENNY

Age 61

Director since March 2005

Member of the Corporate Governance and Nominating Committee

President and Chief Executive Officer of General Cable Corporation

Mr. Kenny has been President and Chief Executive Officer of General Cable Corporation since August 2001 and a director of General Cable Corporation since 1997. General Cable Corporation is a manufacturer of aluminum, copper and fiber-optic wire and cable products. From 1999 to 2001 he served as President and Chief Operating Officer of General Cable Corporation; from 1997 to 1999 he served as Executive Vice President and Chief Operating Officer; from 1994 to 1997 he served as Executive Vice President, Sales and Marketing; and from 1992 to 1994 he served as President, Consumer Products Group. Mr. Kenny is also a director of Cardinal Health, Inc., a Fortune 19 company that improves the cost-effectiveness of healthcare, and a member of the Board of Governors for NEMA (National Electrical Manufacturers Association). In addition, Mr. Kenny serves on the boards of the Cincinnati Branch of the Federal Reserve Bank of Cleveland, United Way of Greater Cincinnati and The International Cablemakers Federation. Mr. Kenny holds a Bachelor of Science degree in business administration from Georgetown University, a Master of Business Administration degree from George Washington University and a Master of Public Administration degree from Harvard University.

BARBARA A. KLEIN

Age 59

Director since March 2004

Chairman of the Audit Committee

Former Senior Vice President and Chief Financial Officer of CDW Corporation

Ms. Klein served as the Senior Vice President and Chief Financial Officer of CDW Corporation, a direct marketer of multi-brand information technology products, from 2002 until she retired in May 2008. CDW was acquired by an entity controlled by investment funds affiliated with Madison Dearborn Partners, LLC and Providence Equity Partners in October 2007. Previously, she served as the Vice President and Chief Financial Officer of Dean Foods Company, a food and beverage company, from 2000 to 2002 and was the Vice President and Corporate Controller of Ameritech Corporation, a telecommunications company, from 1996 to 2000. Ms. Klein is a director of Cabot Microelectronics Corporation, the leading supplier of sophisticated polishing compounds and a provider of polishing pads used in the manufacture of advanced semiconductors (chips) and rigid disks. She also serves on the board of directors of a not-for-profit entity, the National Council on Compensation Insurance, Inc., the largest provider of workers compensation insurance and employee injury data and statistics in the U.S. Ms. Klein belongs to the Financial Executives Institute and The Chicago Network. She holds a Bachelor of Science degree in accounting and finance from Marquette University and a Master of Business Administration degree from Loyola University.

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VICTORIA J. REICH

Age 56

Director since November 2013

Member of the Audit Committee

Former Senior Vice President and Chief Financial Officer of United Stationers Inc.

Ms. Reich served as the Senior Vice President and Chief Financial Officer of United Stationers Inc., a wholesale distributor of business products, from June 2007 until July 2011. Prior to that, Ms. Reich spent ten years with Brunswick Corporation, a manufacturer of recreation products, where she most recently was President of Brunswick European Group from 2003 until 2006. She served as Brunswick s Senior Vice President and Chief Financial Officer from 2000 to 2003 and as Vice President and Controller from 1996 until 2000. Before joining Brunswick, Ms. Reich spent 17 years at General Electric Company, a diversified technology, media and financial services company, where she held various financial management positions. Ms. Reich is a director of H&R Block, Inc., a provider of tax preparation and related services, and a director of Ecolab Inc., a provider of water and hygiene services and technologies for the food, hospitality, industrial and energy markets. She holds a Bachelor of Science degree in applied mathematics and economics from Brown University.

DWAYNE A. WILSON

Age 55

Director since May 2010

Member of the Compensation Committee

President and Chief Executive Officer of Savannah River Nuclear Solutions, LLC

Mr. Wilson has served as President and Chief Executive Officer of Savannah River Nuclear Solutions, LLC, the managing and operating contractor of the U.S. Department of Energy s Savannah River Site including the Savannah River National Laboratory, since October 1, 2011. Mr. Wilson previously served from February 2007 to September 2011 as Group President, Industrial of Fluor Corporation, one of the world s largest publicly owned engineering, procurement, construction, maintenance and project management companies. Fluor is one of the owners of Savannah River Nuclear Solutions. Mr. Wilson had previously served as President, Fluor Mining & Minerals from 2003 to 2007, President, Fluor Commercial and Industrial Institutional from 2002 to 2003, Vice President & Executive Director, Offices of the Chairman and Chief Operating Officer from 2001 to 2002 and in a variety of positions of increasing responsibility from 1980 to 2001. Mr. Wilson is a trustee of the Fluor Foundation and is a past director of the Urban League of Upstate South Carolina. He served as Chairman of the Engineering and Construction Contracting Association from 2002 to 2006. He holds a Bachelor of Science degree in civil engineering from Loyola Marymount University.

The Board of Directors recommends that you vote FOR the nominees for election as directors.

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The Board and Committees

The business and affairs of the company are conducted under the direction of its Board of Directors.

The Board of Directors is currently comprised of 12 directors, 11 of whom are outside (non-employee) directors.

In the interim between annual meetings, the board has the authority under the company s by-laws to increase or decrease the size of the board and to fill vacancies.

The experience, qualifications, attributes and skills that led the board to conclude that our current directors should serve as directors are discussed above in their biographies and below under the heading The Board and Committees Corporate Governance and Nominating Committee.

The Board of Directors has determined that each of the following 11 directors satisfy the definition of independent director, including the definition established by the New York Stock Exchange (the NYSE) applicable to members of the Compensation Committee: R. J. Almeida, L. Aranguren-Trellez, D. B. Fischer, P. Hanrahan, W. M. Hewett, R. L. Jordan, G. B. Kenny, B. A. Klein, V. J. Reich, J. M. Ringler and D. A. Wilson.

The board held six meetings in 2013. Each director attended at least 75 percent of the meetings of the board and the committees of the board on which he or she served during 2013, except D. B. Fischer who was elected at the May 2013 annual meeting of stockholders and who attended four of the six meetings held while he served on the board. Mr. Fischer missed the September 17 meeting of the Compensation Committee and the September 18 meeting of the Board of Directors due to conflicts with meetings of another board of directors which were scheduled prior to his being nominated to serve on our Board of Directors. As a group, the directors meeting attendance averaged 96 percent for the year.

We encourage, but do not require, our directors to attend the annual meeting of stockholders. Last year, all of our directors attended the annual meeting with the exception of Mr. Kenny.

Non-management directors meet regularly in executive sessions without management. Executive sessions are held in conjunction with each regularly scheduled meeting of the board. Non-management directors are all those who are not company officers and may include directors who are not independent by virtue of the existence of a material relationship with the company. At least annually the independent directors meet in executive session without management or any other directors.

The board does not impose term limits, as this could unnecessarily interfere with the continuity, diversity, developed experience and knowledge and the long-term outlook the board must have. The Corporate Governance and Nominating Committee will consider a director s tenure in making a recommendation to the board as to whether a director should be nominated for re-election. In making such recommendation the committee will consider such factors as effectiveness and productivity of the director, the need for retaining an experienced director and others identified during the board self-evaluation process.

Board policy requires outside directors to retire no later than the annual meeting following their 72nd birthday. Employee directors, including the Chief Executive Officer, are required to retire from the board upon retirement as an employee, unless the board determines otherwise in unusual circumstances. Board policy requires executive officers to retire at age 65.

The company s Corporate Governance Principles; Code of Ethics for Chief Executive Officer, Chief Financial Officer and Other Executives Involved in Financial Reporting; and Policies on Business Conduct are available in the Governance section of the company s website at http://www.ingredion.com.

Board Oversight of Risk Management Processes. The board regularly devotes time during its meetings to review and discuss the significant risks facing the company and the steps that the company takes to monitor, manage and mitigate such exposures. The full board directly discusses strategic, competitive, economic, geopolitical and political risks. Significant risks are identified in the company s disclosure in its Annual Report on Form 10-K and updates, if any, and forward-looking statements disclosures, and are prioritized by management and discussed with the board and the appropriate committees of the board in the exercise of their oversight roles. The board conducts a comprehensive annual review of the company s risk management processes with input from management and all relevant board committees, and the Chief Executive Officer and Chief Financial Officer report to the board quarterly on risk management matters.

Consistent with the NYSE s corporate governance standards, the Audit Committee is the board committee with primary responsibility for oversight of the company s risk management profile and compliance with legal and regulatory requirements. The charter of the Audit Committee states that the responsibility of the committee with respect to risk assessment is to review policies with respect to risk assessment and risk management, to discuss the company s major risk exposures and the steps management has taken to monitor such exposure, and to review, on an annual basis, a report prepared by the General Counsel on litigation in which the company is involved and to provide the report to the full board. In the exercise of that responsibility, the Audit Committee discusses with management the major financial, legal and regulatory compliance risk exposures facing the company and the appropriate responses to such risks. The Audit Committee considers financial risk management policies and exposures relating to commodity prices including corn and energy, foreign exchange rates, interest rates and financial derivatives and reviews insurable risk management policies. The Audit Committee also reviews the company s capital structure, access to capital markets, liquidity, credit availability and related matters.

In addition to the Audit Committee, the other committees of the board consider risk in connection with their oversight of the matters within the scope of their charters. The Compensation Committee oversees human resource and labor matters as well as executive and director compensation issues and considers whether the company s compensation plans encourage excessive or inappropriate risk taking. Furthermore, the Compensation Committee considers the effect of the company s compensation and benefit programs in regard to the competitive risks faced by the company. The Corporate Governance and Nominating Committee addresses potential risks that could result from the absence of independence or diversity on the board, potential conflicts of interest, environmental and quality matters and security and safety issues. Each committee provides regular reports on its reviews to the full board with respect to the risk assessment and management matters within the scope of its responsibilities.

Board Leadership. I. S. Gordon currently serves as our Chairman of the Board and Chief Executive Officer. Ms. Gordon s two predecessors also served as Chairman of the Board and Chief Executive Officer, and her serving as such was a term of the letter of employment with respect to her employment. The board believes that this leadership structure with an independent lead director is the one that best meets the company s and stockholders needs based on the individuals available and circumstances as they exist at the present time. We believe combining these roles provides clarity as to who is responsible for the strategic vision of the company and accountability in terms of who is responsible for executing that strategy. We believe that offering the combined role makes it easier to recruit the highest qualified persons. We also believe the combined role facilitates prompt responses to changing business conditions.

The board has adopted Corporate Governance Principles which are available in the Governance section of our website at http://www.ingredion.com. These Corporate Governance Principles are designed to promote effective functioning of the board s activities, to ensure that we conduct our business in accordance with the highest legal and ethical standards and to enhance stockholder value. We believe that our Corporate Governance Principles ensure that strong, independent directors continue to effectively oversee our management and provide vigorous oversight of how we

address key issues relating to strategy, risk and integrity. As described in our Corporate Governance Principles, these measures include the designation of an independent director to act as lead director.

The lead director is R. J. Almeida, who previously served as the Chief Executive Officer of Heller Financial, Inc. The lead director is elected annually by and from the company s independent directors. Mr. Almeida is not standing for re-election, and a new lead director is scheduled to be elected by the independent directors at the board s May 21, 2014 meeting. The lead director oversees the board s governance processes, including board evaluations, Chief Executive Officer succession planning and other governance-related and oversight matters. The responsibilities of the lead director include attending and presiding at meetings of the Board of Directors in the absence of the Chairman of the Board and presiding at executive sessions conducted without management, except for meetings where executive performance and compensation are discussed, which are presided over by the Chairman of the Compensation Committee. The lead director serves as a liaison between the directors and the Chief Executive Officer, provides direct feedback to the Chief Executive Officer on a variety of matters discussed in the executive sessions without management and serves as an informal communication link between the directors and management. The lead director oversees that the board discharges its responsibilities and helps to manage the boundaries between board and management responsibilities. He or she also works with the Chairman of the Board and the Chairman of the Corporate Governance and Nominating Committee regarding matters to be included on the board agendas and the informational needs associated with those agendas and presentations and approves the agendas, meeting schedules and information provided to the board. The lead director works with the Chairman of the Board to ensure that the board works in an independent, productive fashion and is alert to its obligations to our stockholders. He or she works with the Chairman of the Board to ensure that board meetings are conducted in such a manner as to allow adequate time and opportunity for appropriate discussion of matters brought before the board. The lead director has the authority to call meetings of the Board of Directors and meetings of the independent directors. The lead director assumes those other responsibilities which the independent directors may designate from time to time and is available as deemed appropriate by the board for consultation and direct communication with stockholders. We believe that this structure recognizes that in most cases one person should speak for and lead the company and board, but also that an independent lead director with substantial authority helps ensure effective oversight by an independent board.

Committees of the Board. The board currently has three standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. Each of these committees operates pursuant to a written charter adopted by the board. These charters are available in the Governance section of our website at http://www.ingredion.com.

Audit Committee

Our Audit Committee is comprised entirely of independent directors, as independent is defined under the rules of the NYSE. Each of the members of the Audit Committee is financially literate as required by the rules of the NYSE. The board has determined that B. A. Klein, the Chairman of the committee, meets the legal requirements of an audit committee financial expert as defined under SEC rules.

This committee assists the board in fulfilling its oversight responsibilities in the areas related to the financial reporting process and the systems of financial control. The Audit Committee also acts as a separately designated standing audit committee established in accordance with the Exchange Act. The committee s duties include selecting the company s independent auditors, who are accountable to and meet privately with this committee on a regular basis; reviewing the scope of the audit to be conducted by them, as well as the results of their audit; overseeing our financial reporting activities, and the accounting standards and principles followed; discussing with management the company s risk assessment and risk management practices, including risk relating to the company s financial statements, financial reporting processes and the guidelines, policies and processes for monitoring and managing these risks; approving audit and non-audit services provided to the company by the independent auditor; and reviewing the organization and scope of our internal audit function and our disclosure and internal controls. This committee also conducts ongoing reviews of potential related party transactions, including the review and approval of related party transactions as

defined under SEC rules.

Members of the Audit Committee are B. A. Klein (Chairman), L. Aranguren-Trellez, W. M. Hewett and V. J. Reich. This committee held ten meetings during 2013 and has furnished the report appearing on page 67.

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Compensation Committee

Our Compensation Committee is comprised entirely of independent directors, as independent is defined under the rules of the NYSE. Each of the members of the Compensation Committee is also a non-employee director as that term is defined under Exchange Act Rule 16b-3 and an outside director as that term is defined in U.S. Treasury Regulation § 1.162-27(3).

This committee:

- together with our other independent, outside, non-employee directors, discharges the board s responsibilities relating to compensation of our Chief Executive Officer,
- reviews and approves the compensation of executive officers of the company other than the Chief Executive Officer, employee benefit plans in which the executive officers participate and the compensation of outside directors,
- administers our executive compensation programs and assures that compensation programs are implemented according to our compensation philosophy as established by the Compensation Committee and that compensation actions are aligned with the business strategy, expected financial results and the interests of stockholders,
- annually reviews the design of our compensation plans,
- reviews and discusses with management the company s compensation discussion and analysis to be included in the company s annual proxy statement or Annual Report on Form 10-K filed with the SEC,
- prepares the Compensation Committee Report as required by the rules of the SEC,
- reviews the performance and succession plans of our elected officers and the developmental actions for the group of managers identified by management as high potential and therefore corporate-monitored employees and
- administers our deferred compensation plan for our non-employee directors.

Our Compensation Committee, together with our other independent, outside, non-employee directors, reviews and approves corporate goals and objectives relevant to our Chief Executive Officer s compensation, evaluates our Chief Executive Officer s performance in light of those goals and objectives and, together with our other independent, outside, non-employee directors, establishes our Chief Executive Officer s compensation, based on the committee s evaluation of the Chief Executive Officer s performance.

The corporate goals and objectives are developed by our management, consistent with our business strategy, and approved by the board. Management recommends base salaries and short- and long-term incentive awards for our executive officers other than our Chief Executive Officer, based on external market information and internal equity. Our Compensation Committee reviews these recommendations and approves the base salaries and short- and long-term opportunities for the executive officers of the company other than our Chief Executive Officer. The Compensation Committee also reviews and approves compensation under equity-based plans for our executive officers other than our Chief Executive Officer.

Our Compensation Committee retains an independent consultant to advise it with respect to incentive plan design, external market information and other compensation matters. The independent consultant generally attends meetings of the committee and also communicates with the committee outside of meetings. Our Compensation Committee has instructed the independent consultant to:

- act independently of management and at the direction of the committee,
- understand that their ongoing engagement will be determined by the committee,
- keep the committee informed of trends and regulatory developments,

provide compensation comparisons based on information that is derived from comparable businesses of a similar size to us and

provide detailed comparative data regarding executive officer compensation.

The Compensation Committee selected and directly retained the services of Pearl Meyer & Partners, LLC, an independent executive compensation consulting firm, as to its compensation decisions for 2013. Pearl Meyer & Partners did not provide any other services to the company and worked with the company s management only on matters for which the Compensation Committee is responsible. The Compensation Committee assessed the independence of Pearl Meyer & Partners pursuant to SEC and NYSE rules and concluded that no conflict of interest existed that would prevent Pearl Meyer & Partners from serving as an independent consultant to the committee. The work of Pearl Meyer & Partners in 2013 did not raise any conflict of interest.

Our Compensation Committee meets with our Chief Executive Officer annually to review the performance of our executive officers. This meeting includes an in-depth review of our executive officers performance and our succession plans. The same review is presented to the full board each year. Similarly, the Compensation Committee reviews the Chief Executive Officer s performance and meets independently of the Chief Executive Officer to discuss her compensation. This review is also presented to the full board each year.

Our Chief Executive Officer generally attends meetings of the Compensation Committee by invitation of the committee.

The members of the Compensation Committee are P. Hanrahan (Chairman), D. B. Fischer, R. L. Jordan and D. A. Wilson. This committee held five meetings during 2013.

Corporate Governance and Nominating Committee

Our Corporate Governance and Nominating Committee is comprised entirely of independent directors, as independent is defined under the rules of the NYSE.

This committee recommends candidates to be nominated for election as directors at our annual meeting, consistent with criteria approved by the board, develops and regularly reviews corporate governance principles and related policies for approval by the board, oversees the organization of the board to discharge the board s duties and responsibilities properly and efficiently and sees that proper attention is given and effective responses are made to stockholder concerns regarding corporate governance. Other specific duties and responsibilities of the Corporate Governance and Nominating Committee include: annually assessing the size and composition of the board, including developing and reviewing director qualifications for approval by the board, identifying and recruiting new directors and considering candidates proposed by stockholders, recommending assignments of directors to committees to ensure that committee membership complies with applicable laws and exchange corporate governance standards, conducting a preliminary review of director independence and financial literacy and expertise of Audit Committee members and overseeing director orientation and continuing education. The Corporate Governance and Nominating Committee also reviews proposed changes to our certificate of incorporation, by-laws and board committee charters, assesses and makes recommendations regarding stockholder protections, as appropriate, conducts ongoing reviews of potential conflicts of interest, reviews and approves the designation of officers and executive officers for purposes of the Exchange Act and any executive officers standing for election to outside for-profit boards of directors, reviews stockholder proposals in conjunction with the Chairman of the Board and recommends board responses, oversees the self-evaluation of the board and its committees and reviews requests for indemnification under our by-laws.

The company retains a professional third-party search firm to help identify and facilitate the screening and interview process for potential director candidates. The Corporate Governance and Nominating Committee maintains, with the approval of the board, formal criteria for selecting director nominees. Candidates for director

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are identified for the contributions they can make to the deliberations of the board and their ability to represent impartially all of the company s stockholders, and are considered regardless of race or gender.

In addition to other considerations, all potential nominees are expected to have and all our current directors have:

- the highest personal and professional ethics, integrity and values
- education, breadth of experience, insight and knowledge to understand global business problems and evaluate the possible solutions
- the ability to think strategically and make decisions with a forward-looking focus, with the ability to assimilate relevant information on a broad range of complex topics
- leadership skills
- the ability to work effectively with others
- respect for the views of others and an open-minded approach to problems
- an awareness of the responsibilities of the company to its employees, its customers and regulatory authorities
- a reasoned and balanced commitment to the social responsibilities of the company
- an interest and availability of time to be involved with the company and its employees over a sustained period
- stature and experience to represent the company before the public, stockholders and the other various individuals and groups that affect the company
- an ability and willingness to represent the stockholders short-term and long-term economic interests
- the willingness to objectively appraise management performance in the interest of the stockholders

- an open mind on all policy issues and areas of activity affecting overall interests of the company and its stockholders

- no involvement in other activities or interests that create a conflict with the director s responsibility to the company and its stockholders

The above attributes are expected to be maintained by board members as a condition of their ongoing membership to the board. The Corporate Governance and Nominating Committee reviews the makeup of the board and the tenure of its members at least annually to help determine the number and experience of directors required.

The Corporate Governance and Nominating Committee has also established the following additional criteria as an aid in the selection of potential director candidates. The weight given to any particular item may vary based on the committee s assessment of the needs of the board, and not all criteria may be applicable to each vacancy. Similarly, these criteria, in whole or in part, may be modified or waived by the Corporate Governance and Nominating Committee in connection with a particular vacancy or as otherwise deemed appropriate by the committee. Candidates should have all or a majority of the following important or desired attributes:

- active employment as a Chief Executive Officer, or a President, Chief Financial Officer, Senior Officer or General Manager (or a comparable position of responsibility) of a publicly traded company (or a significant private company) with sales and complexity comparable with Ingredion

- international business experience

- financial responsibility during career and financial literacy

- general management experience during career

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- experience on publicly traded or significant private company boards
- experience with corporate governance issues, and ideally, some background in the legal aspects of governance applicable to publicly traded companies
- expertise that is useful to the company and complementary to the background and experience of other board members, so that an appropriate balance of skills and experience of the membership of the board can be achieved and maintained
- contribution to board diversity in the broadest sense (age, gender, ethnicity, geography and personal experience)
- an understanding of technologies pertinent to the company s businesses, production, marketing, finance, regulation and public policy

In addition to these minimum requirements and desired attributes, the Corporate Governance and Nominating Committee will also evaluate whether the candidates skills and experience are complementary to the existing board members skills and experience as well as the board s need for operational, management, financial, international, technological or other expertise and diversity in a broad sense. The search firm identifies and screens the candidates, performs reference checks, prepares a biography for each candidate for the Corporate Governance and Nominating Committee to review and assists in establishing interviews. The Corporate Governance and Nominating Committee members interview candidates that meet the criteria and select those that it will recommend to the board for nomination. The board considers the nominees and selects those who best suit the needs of the board for nomination for election or appointment to the board. The Corporate Governance and Nominating Committee and the board consider the composition of the entire board and the entire range of diversity in the broadest sense (age, gender, ethnicity, geography and personal experience) in determining who best suits the needs of the board. We do not have a formal diversity policy, but we have historically had a diverse board.

Rhonda L. Jordan and Victoria J. Reich were appointed to the board effective November 1, 2013 after an extensive search. In December 2011, the Corporate Governance and Nominating Committee recommended and the board named G. B. Kenny, Chairman, P. Hanrahan and D. A. Wilson to serve as a search committee, with R. J. Almeida to serve as an ex-officio member. In May 2013, the search committee engaged a search firm to identify candidates to serve as directors. The search firm identified prospective candidates and provided information about their background and experience. The search firm recommended Ms. Jordan and Ms. Reich to the search committee, and the search committee recommended their appointment to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee recommended Ms. Jordan and Ms. Reich for appointment as directors in accordance with the policies and procedures described above. The Board of Directors on October 15, 2013 increased the size of the board to 12 members and appointed Ms. Jordan and Ms. Reich to fill the vacancies created by the increase, effective November 1, 2013. R. J. Almeida s and J. M. Ringler s terms as directors will expire at our 2014 annual meeting. The board has reduced the size of the board to ten members effective at our 2014 annual meeting.

Our board members have a desirable mix of backgrounds, skills and experiences. They are all financially literate and share the personal attributes of effective directors described above. Below are some of the specific experiences and skills of the ten nominees for election as directors.

Luis Aranguren-Trellez

Mr. Aranguren-Trellez s experience includes currently serving as Chief Executive Officer of significant private companies, operating and manufacturing experience, general management experience and living and working outside the U.S.

David B. Fischer

Mr. Fischer s experience includes currently serving as the Chief Executive Officer of a public company, operating and manufacturing and general management experience, including responsibility for international operations while based in the U.S., and service on the boards of two public companies other than Ingredion.

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Ilene S. Gordon

Ms. Gordon s experience includes currently serving as the Chairman and Chief Executive Officer of Ingredion, serving as the Chief Executive Officer of a large business unit of a large public company, operating and manufacturing, sales and marketing and general management experience, including living and working outside the U.S., and service as a director on several public company boards and on several not-for-profit boards.

Paul Hanrahan

Mr. Hanrahan s experience includes currently serving as the Chief Executive Officer of a private company, serving as the Chief Executive Officer of a public company, serving as a director of two public companies in addition to Ingredion and three private companies, accounting and financial experience, operating and manufacturing, sales and marketing and general management experience, including living and working outside the U.S.

Wayne M. Hewett

Mr. Hewett s experience includes currently serving as the Chief Executive Officer of a significant private company, financial and accounting experience, operating and manufacturing experience, general management experience and living and working outside the U.S.

Rhonda L. Jordan

Ms. Jordan s experience includes 25 years of operating, general management and marketing experience within a large, publicly held, global corporation. She serves as chairman of the compensation committee and a member of the nominating and corporate governance committee of a public company and chairman of the compensation committee of a significant, privately held company.

Gregory B. Kenny

Mr. Kenny s experience includes currently serving as the Chief Executive Officer of a public company, accounting and financial, operating and manufacturing, sales and marketing and general management experience, including responsibility for international operations while based in the U.S. and service on the boards of public companies other than Ingredion, including a Fortune 19 company, and of the Federal Reserve Bank of Cleveland (Cincinnati Branch).

Barbara A. Klein

Ms. Klein s experience includes service as Chief Financial Officer of two public companies and as a financial executive at other companies in a number of industries and in various stages of development, including experience with acquisitions and divestitures. She is a certified public accountant. Ms. Klein is an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K and is a member of the audit committee of Cabot Microelectronics and chairman of the audit committee of the National Council on Compensation Insurance.

Victoria J. Reich

Ms. Reich s experience includes serving as the Chief Financial Officer of two public companies and accounting, financial, operating and general management experience, including responsibility for international operations while living and working outside the U.S. Ms. Reich is a member of the audit and finance committees of a public company and is vice-chair of the audit committee and a member of the safety, health and environment committee of another

public company.

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Dwayne A. Wilson

Mr. Wilson s experience includes currently serving as President and Chief Executive Officer of the managing and operating contractor of a significant U.S. Department of Energy site, including a National Laboratory, and previously serving as Group President of a significant international business unit of a public company, project management, operating and manufacturing, sales and marketing and general management experience, including responsibility for international operations while based in the U.S.

The Corporate Governance and Nominating Committee will consider qualified candidates for director nominees suggested by our stockholders. Stockholders can suggest qualified candidates for director nominees by writing to the Corporate Governance and Nominating Committee, c/o the Corporate Secretary, at Ingredion Incorporated, 5 Westbrook Corporate Center, Westchester, Illinois 60154. The Corporate Governance and Nominating Committee intends to evaluate candidates proposed by stockholders in the same manner as other candidates.

Our by-laws provide that candidates for director may be nominated at the annual meeting if the nominating stockholder gives the company written notice not less than ninety nor more than one hundred twenty days in advance of the date which is the anniversary of the date that this proxy statement was released, or, if the date of the annual meeting has been changed by more than thirty days from the date contemplated at the time of the previous year s proxy statement, not less than ninety days before the date of the applicable annual meeting. That notice must provide certain other information as described in our by-laws.

Members of the Corporate Governance and Nominating Committee are R. J. Almeida (Chairman), G. B. Kenny and J. M. Ringler. This committee held five meetings during 2013.

Director Ownership Guidelines

Our Corporate Governance Principles provide that within five years of his or her election to the board, a director should acquire and hold a number of shares of the company s common stock that from time to time has a market value equal to a minimum of five times the dollar amount of the cash portion of his or her annual board retainer. We count direct and indirect ownership of our common stock, including restricted stock, restricted stock units and phantom stock units, but do not include stock options in determining whether the ownership targets are satisfied. As of December 31, 2013, all the directors either exceeded their stock ownership targets or were within the five-year compliance window in which to meet those ownership targets.

Director Compensation

The following sets forth the individual components of our outside director compensation in 2013. There were no changes in these components versus 2012 levels. I. S. Gordon, our Chairman and Chief Executive Officer, whose compensation is included in the Summary Compensation Table below, did not receive any additional compensation for serving as a director.

Annual Board Retainer	$ 200,000
Annual Audit Committee Chairman Retainer	$ 20,000
Annual Compensation Committee Chairman Retainer	$ 12,500
Annual Corporate Governance and Nominating Committee Chairman Retainer	$ 10,000
Annual Lead Director Retainer	$ 10,000

These retainers are intended to compensate our outside directors at levels comparable to those paid by similarly sized companies. The Compensation Committee and the board believe these to be appropriate levels in terms of the responsibilities borne by the directors and the market for director compensation.

One half of each retainer is paid in cash and the other half is paid in stock. Directors are permitted to defer all or a portion of their retainers into restricted stock units under our Stock Incentive Plan that are deferred until after the director s termination of service from the board. All directors are reimbursed for board and committee meeting expenses, but no meeting attendance fees are paid in addition to the annual retainers.

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The following table summarizes the compensation earned by our directors other than I. S. Gordon for service during 2013.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)	All Other Compensation ($)(3)	Total ($)
Richard J. Almeida(4)	$ 110,000	$ 110,000	$ 55,227	$ 275,227
Luis Aranguren-Trellez	$ 100,000	$ 100,000	$ 25,187	$ 225,187
David B. Fischer(5)	$ 62,912	$ 62,912	$ 419	$ 126,243
Paul Hanrahan(6)	$ 106,250	$ 106,250	$ 44,251	$ 256,751
Karen L. Hendricks(7)	$ 37,363	$ 37,363	$ 44,502	$ 119,228
Wayne M. Hewett	$ 100,000	$ 100,000	$ 9,946	$ 209,946
Rhonda L. Jordan(8)	$	$ 33,152	$	$ 33,152
Gregory B. Kenny	$ 100,000	$ 100,000	$ 39,950	$ 239,950
Barbara A. Klein(9)	$ 110,000	$ 110,000	$ 30,475	$ 250,475
Victoria J. Reich(10)	$ 16,576	$ 16,576	$	$ 33,152
James M. Ringler	$ 100,000	$ 100,000	$ 57,342	$ 257,342
Dwayne A. Wilson	$ 100,000	$ 100,000	$ 8,653	$ 208,653

(1) Restricted stock units have been valued at the grant date fair value computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 (FASB ASC Topic 718). See notes 2 and 10 to our consolidated financial statements for the year ended December 31, 2013 contained in our Annual Report on Form 10-K for a statement of the assumptions made with respect to the valuation under FASB ASC Topic 718. Shares of common stock have been valued at the closing price of a share of our common stock on the NYSE on the first day of the applicable fiscal quarter, or if that day is not a day on which the NYSE is open for trading, on the immediately preceding day the exchange is open for trading. Shares of common stock are granted in advance on the first business day of each fiscal quarter equal to the amount of the retainer paid in stock divided by the closing price of a share of our common stock on the NYSE on the first day of the fiscal quarter, or if that day is not a day on which the NYSE is open for trading, on the immediately preceding day the exchange is open for trading. Restricted stock units are granted in advance on the first business day of each fiscal quarter equal to the amount of the retainer deferred divided by the closing price of a share of our common stock on the NYSE on the first day of the fiscal quarter, or if that day is not a day on which the NYSE is open for trading, on the immediately preceding day the exchange is open for trading. The restricted stock units (and phantom stock units issued prior to 2005) earn dividend equivalents. The restricted stock units and dividends earned thereon are not subject to vesting but cannot be transferred until a date not less than six months after the date of the director s termination of service from the board at which time the units will be settled by delivery of shares of common stock.

(2) As of December 31, 2013, each director had the following aggregate number of restricted stock units and phantom stock units accumulated in his or her deferral account for all years of service as a director, including

additional share units credited as a result of the reinvestment of dividend equivalents: R. J. Almeida, 37,659 units; L. Aranguren-Trellez, 18,009 units; P. Hanrahan, 30,618 units; K. L. Hendricks, 6,978 units; W. M. Hewett, 7,882 units; R. L. Jordan, 503 units; G. B. Kenny, 29,590 units; B. A. Klein, 21,904 units; V. J. Reich, 252 units; J. M. Ringler, 39,837 units; and D. A. Wilson, 6,946 units.

(3) Includes restricted stock units and phantom stock units issued as deemed dividends on restricted stock units and phantom stock units which were credited as additional restricted stock units and phantom stock units valued as follow: R. J. Almeida, $52,052; L. Aranguren-Trellez, $23,944; P. Hanrahan, $42,320; K. L. Hendricks, $43,868; W. M. Hewett, $9,946; G. B. Kenny, $39,950; B. A. Klein, $29,232; J. M. Ringler, $55,062; and D. A. Wilson, $8,653. Includes $1,243 in dividends earned on 888 restricted shares granted to each of Messrs. Almeida, Aranguren-Trellez and Ringler and Ms. Klein in May 2004 for

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their service as directors. The underlying shares are vested but remain restricted as to transfer until termination of service from the board. Includes $568 in such dividends on such shares granted to Ms. Hendricks. Also includes cash dividends on shares of common stock issued to certain directors as part of their annual retainers as follow: R. J. Almeida, $1,932; D. B. Fischer, $419; P. Hanrahan, $1,931; K. L. Hendricks, $66; and J. M. Ringler, $1,037. In addition to the amounts shown, directors may participate in a charitable matching gift program which provides for matching contributions by the company ($2 match for the first $1,000 contributed and $1 match for the next up to $6,500 contributed).

(4) Lead Director and Corporate Governance and Nominating Committee Chairman.

(5) D. B. Fischer was elected as a director at the May 15, 2013 annual meeting of stockholders.

(6) Compensation Committee Chairman.

(7) K. L. Hendricks service as a director terminated at the end of her term at the May 15, 2013 annual meeting of stockholders.

(8) R. L. Jordan was appointed as a director effective November 1, 2013.

(9) Audit Committee Chairman.

(10) V. J. Reich was appointed as a director effective November 1, 2013.

Security Ownership of Certain Beneficial Owners and Management

The following table shows, as of December 31, 2013, all persons or entities that the company knows are beneficial owners of more than five percent of the company s issued and outstanding common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
BlackRock, Inc.(1) 40 East 52nd Street New York, NY 10022	5,002,882	6.50%
The Vanguard Group(2) 100 Vanguard Blvd. Malvern, PA 19355	4,237,579	5.52%
Wellington Management Company, LLP(3) 280 Congress Street Boston, MA 02210	3,990,863	5.20%

(1) The ownership information disclosed above is based solely on the Amendment No. 4 to Schedule 13G report that BlackRock, Inc. filed with the SEC on January 29, 2014 on behalf of itself and its subsidiaries. According to the Schedule 13G report, BlackRock, Inc. has sole voting power over 4,688,383 shares covered by the report and sole dispositive power over 5,002,882 shares covered by the report.

(2) The ownership information disclosed above is based solely on the Amendment No. 1 to Schedule 13G report that The Vanguard Group filed with the SEC on February 11, 2014 on behalf of itself and its subsidiaries. According

to the Schedule 13G report, The Vanguard Group has sole voting power over 49,028 shares covered by the report, sole dispositive power over 4,194,151 shares covered by the report and shared dispositive power over 43,428 shares covered by the report.

(3) The ownership information disclosed above is based solely on the Schedule 13G report that Wellington Management Company, LLP filed with the SEC on February 14, 2014 in its capacity as an investment adviser. According to the Schedule 13G report, Wellington Management Company, LLP has shared voting power over 1,370,018 shares covered by the report and shared dispositive power over 3,990,863 shares covered by the report.

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The following table shows the ownership of the company s issued and outstanding common stock as of March 3, 2014, of each director, each nominee for director, each named executive officer and all directors and executive officers as a group.

	Amount and Nature of Beneficial Ownership		
Beneficial Owner	**Outstanding Shares of Company Common Stock(1)**	**Shares Underlying Phantom Stock Units and Restricted Stock Units(2)**	**Percent of Class(3)**
Richard J. Almeida	2,113	37,909	*
Luis Aranguren-Trellez	965	18,493	*
David B. Fischer	927	365	*
Ilene S. Gordon	508,660	72,906	*
Paul Hanrahan	2,000	31,209	*
Wayne M. Hewett		8,299	*
Rhonda L. Jordan		1,237	*
Gregory B. Kenny		30,151	*
Barbara A. Klein	2,770	22,450	*
Victoria J. Reich		619	*
James M. Ringler	901	40,101	*
Dwayne A. Wilson		7,357	*
Cheryl K. Beebe(4)	161,009		*
Jack C. Fortnum	211,897	17,178	*
James P. Zallie	40,213	10,709	*
Julio dos Reis(5)	23,311		*
All directors and executive officers as a group (24 persons)	1,154,726	351,298	1.5%

(1) Includes shares of company common stock held individually, jointly with others, in the name of an immediate family member or under trust for the benefit of the named individual. Unless otherwise noted, the beneficial owner has sole voting and investment power. Fractional amounts have been rounded to the nearest whole share.
Includes shares of company common stock that may be acquired within 60 days of March 3, 2014, through the exercise of stock options granted by the company in the following amounts: I. S. Gordon, 264,800; C. K. Beebe, 55,500; J. C. Fortnum, 94,833; J. P. Zallie, 29,566; and for all directors and executive officers as a group, 578,541.

Includes shares of the company s common stock subject to restricted stock awards in the following amounts: for each of R. J. Almeida, L. Aranguren-Trellez, B. A. Klein and J. M. Ringler, 888 shares and reinvestment of dividends on those shares; and for all directors and executive officers as a group, 6,552 shares. The shares of restricted stock held by Mr. Almeida, Mr. Aranguren-Trellez, Ms. Klein and Mr. Ringler were granted to these directors as part of their annual retainers, and reinvested dividends on these shares are vested but are restricted as to transfer until termination of service from the board. Holders of restricted stock are entitled to vote those shares prior to vesting.

Includes shares of the company s common stock held in the Ingredion Incorporated Stock Fund of our Retirement Savings Plan as follow: C. K. Beebe, 4,122; and for all directors and executive officers as a group, 5,005.

(2) Includes shares of company common stock that are represented by deferred phantom stock units and restricted stock units of the company credited to the accounts of the outside directors and certain executive officers. The directors and executive officers have no voting or investment power over the company s common stock by virtue of their ownership of phantom stock units or restricted stock units. The restricted stock units held by executive officers and included in this column are not exercisable within 60 days.

(3) Less than one percent, except as otherwise indicated. Does not include shares in the column headed Shares Underlying Phantom Stock Units and Restricted Stock Units.
(4) C. K. Beebe, former Executive Vice President and Chief Financial Officer, retired from that position on January 6, 2014 and retired as an employee of the company on February 8, 2014.
(5) J. dos Reis retired as the company s Senior Vice President and President, South America Ingredient Solutions and as an employee of the company on December 31, 2013.

Executive Compensation

Compensation Discussion and Analysis

This section provides information concerning our compensation programs in which our principal executive officer, our principal financial officer and our three most highly compensated executive officers other than our principal executive officer and principal financial officer (named executive officers) participated in 2013. The compensation discussion and analysis is organized as follows:

- Executive Summary
- Overview of Compensation Philosophy and Programs
- Elements of Compensation
- Executive Stock Ownership Requirements
- Other Items

Executive Summary

We are a leading global manufacturer and supplier of starch and sweetener ingredients to a range of industries, including packaged food, beverage and industrial customers.

2013 Business Performance and Executive Pay Highlights

We achieved net sales of $6.3 billion in 2013. Diluted net income per share decreased by 8% to $5.05 compared to $5.47 in 2012 while adjusted diluted net income per share fell by 9% to $5.05 compared to $5.57 in 2012.* The decline in net income per share was largely a result of difficult business conditions in South America. In particular, Argentina faced a dramatic increase in input costs, and government actions limited marketplace pricing opportunities. Positively, our North American business managed through historically high raw material prices and mitigated the potential impact in the region. We also increased our cash dividend by more than 60% and repurchased 3.4 million shares of our common stock.

2013 Executive Pay Highlights

The Compensation Committee approved base salary increases for our named executive officers which averaged 5.0%.

A substantial majority of the named executive officers compensation was in the form of annual and long-term incentives, providing, as in prior years, a strong incentive to increase shareholder value. From 63% to 85% of the named executive officers target total direct compensation was performance-based.

Annual Incentive Plan awards were based on targets of 75% to 125% of base salary of the named executive officers, based on achievement of goals with respect to EBITDA, operating working capital and personal objectives.

* See Appendix A for a reconciliation of adjusted diluted earnings per share to diluted earnings per share determined in accordance with generally accepted accounting principles.

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Reflecting the challenging business environment in 2013, the payments under the Annual Incentive Plan for 2013 to Ms. Gordon, Ms. Beebe, Mr. Fortnum, Mr. Zallie and Mr. dos Reis were 77%, 80%, 80%, 71% and 50% of their target awards, respectively.

Long-term incentive awards had a target grant date value of from 35% to 67% of the named executive officers total 2013 target compensation (base salary plus target short- and long-term incentive compensation). These awards were in the form of nonqualified stock options, performance shares and restricted stock units granted pursuant to our Stock Incentive Plan. Our goal was to provide awards such that we delivered approximately 40% of the grant date fair value of the long-term incentive award in the form of nonqualified stock options, 35% in the form of performance shares and the remaining 25% in the form of restricted stock units.

In 2014, we adopted an incentive compensation recoupment policy (a clawback policy) and a policy prohibiting the hedging and pledging of company stock by our executive officers and directors.

Overview of Compensation Philosophy and Programs

Purpose and Structure

A well-structured executive compensation strategy, like a well-structured business strategy, requires clarity and balance. We need to address many important business variables and time frames in our compensation programs. Among the most important variables that we must manage are:

Alignment with company strategy and performance across time, i.e., short-, intermediate- and long-term performance,

Program design that properly encourages the necessary tradeoffs between short-term results and greater long-term value,

Reinforcement of prudent risk taking,

Facilitation of our ability to attract and retain key executive talent,

Competitiveness with prevailing practices in both level and mix of pay,

Program design and overall mix of compensation that is consistent with both managerial effectiveness and sound governance,

- Program design that can be reasonably applied to a broader cross-section of positions than just named executive officers,

- Programs that are straightforward and understandable and

- Facilitation of sensible, sustainable and proportionate sharing of company success between shareholders and employees.

Our compensation programs are intended to balance these reinforcing (and competing) objectives. We believe our programs and related pay opportunities allow us to achieve these objectives in a prudent and effective way. Our executive compensation structure is straightforward, competitive in the marketplace and has a strong emphasis on performance. We believe it is one that shareholders can understand and support.

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Our compensation structure for our named executive officers for 2013 included the following broad elements:

This structure is simple and comprehensive, providing:

- elements essential to be competitive in the marketplace,
- a mix that supports the short- and long-term elements of our business strategy and
- performance measures that are drivers of and/or directly based on shareholder value.

Performance

Our pay programs are aligned with competitive practice and our performance. We are committed to continuing to manage the company in a prudent manner for long-term success. We believe we are providing the right incentives to our management for them to do so.

In making decisions with respect to pay for our named executive officers for 2014, our Compensation Committee took into account the say-on-pay vote at our 2013 annual meeting. Our programs for 2014 are similar to those for 2013. In light of the 94.4% vote in favor of the compensation of our named executive officers, we did not change our compensation plans as a result of the say-on-pay vote.

We continue to evaluate our compensation programs and practices to ensure we incorporate best practices in executive compensation and consider modifications to our programs to support our business strategies and provide an appropriate balance of risk and reward.

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Philosophy and Process

Our Compensation Committee establishes our compensation philosophy. Our executive compensation programs are approved by our Compensation Committee based on recommendations by management and advice from an independent compensation consultant and administered by our Human Resources Department. Our Chief Executive Officer and Senior Vice President, Human Resources make recommendations concerning base salary, short- and long-term incentive compensation and plan design to our Compensation Committee. Our Compensation Committee approves all forms of compensation, related design provisions and performance goals for our named executive officers.

We are committed to maximizing shareholder value and dedicated to attracting and retaining the necessary talent to accomplish this objective. Our compensation philosophy is designed to directly align the interests of shareholders and employees through compensation programs that will reward employees for performance that builds long-term shareholder value.

The objectives of our compensation programs are to:

- Align and motivate management to execute our business strategy and to enhance shareholder value,
- Attract and retain outstanding and talented executives who can execute our strategy and deliver the best business results and
- Reinforce pay-for-performance by aligning earned compensation with results.

To meet our objectives, elements of compensation are based on the following three fundamental principles.

A Substantial Portion of the Named Executive Officers Compensation Will Be Performance-Based. Our executive compensation programs are designed to motivate our executive officers to maximize shareholder returns by achieving growth and profitability goals. Our programs provide this motivation in a number of ways.

- From 63% to 85% of the named executive officers target total direct compensation in 2013 was performance-based.
- Our named executive officers may earn cash payments under our Annual Incentive Plan with target awards ranging from 75% to 125% of the named executive officer s base salary. The remaining performance-based portion of total direct compensation was in the form of long-term incentive compensation.
- The amount of the payments is directly related to the level of performance.

No payments are made if threshold performance goals are not achieved.

The performance goals are recommended by management and reviewed by the Compensation Committee before being approved by the independent members of the Board of Directors.

A Substantial Portion of Named Executive Officer Compensation Will Be Delivered in the Form of Equity Awards. The Compensation Committee believes that a substantial portion of total compensation should be delivered in the form of long-term equity incentives in order to align the interests of our named executive officers with the interests of our shareholders. In 2013, 35% of the equity compensation provided to our named executive officers was delivered in the form of performance shares, 40% in the form of stock options and 25% in the form of restricted stock units. These awards in combination focus executives on the creation of shareholder value over the long term and permit named executive officers to accumulate ownership in the company.

Like awards earned under the Annual Incentive Plan, performance shares are earned based on the achievement of performance goals recommended by the Compensation Committee and approved by the independent members of the Board of Directors. No performance shares are earned if threshold performance goals are not achieved. Stock options have no realizable value at the time of grant. Named executive officers will only realize value from stock options if our share price appreciates above the exercise price which is the closing price of a share of our common stock on the date of grant. Restricted stock units have a value tied to the stock price.

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Our Compensation Program for Named Executive Officers Is Designed to Enable Us to Attract and Retain First-Rate Executive Talent. We believe that shareholders are best served when we can attract and retain talented executives with compensation packages that are competitive. Therefore, in general we target base salary and annual cash compensation (base salary plus target short-term incentives) and long-term incentive compensation opportunities for the named executive officers at the 50th percentile based on executives with similar responsibilities among the comparator group of companies. However, actual pay opportunities can vary somewhat (above or below) this market reference point based on experience, performance, retention concerns and overall expertise in the role. We prepare market benchmarking on the basis of pay opportunities, that is, target and grant date values of compensation. We use target/grant date values in our market analyses because earned compensation (as contrasted with target) is entirely a function of performance. Our objective is to deliver competitive target compensation opportunities. Management provides the Compensation Committee with information regarding compensation practices of a compensation comparator group of companies to assist the Compensation Committee in understanding the external market. This market data is provided to management by Meridian Compensation Partners, LLC and reviewed by the Compensation Committee and by its advisor, Pearl Meyer & Partners. The compensation comparator group used for 2013 compensation decisions consisted of the following 39 companies:

Ball Corporation
BorgWarner Inc.
Campbell Soup Company
Chiquita Brands International Inc.
The Clorox Company
Dover Corporation
Dr. Pepper Snapple Group, Inc.
Eastman Chemical Company
Ecolab Inc.
Federal-Mogul Corporation
Flowserve Corporation
Graphic Packaging Holding Company
Hanesbrands, Inc.
Harley-Davidson Motor Company Inc.
The Hershey Company
The J. M. Smucker Company
Hormel Foods Corporation
Joy Global Inc.
Leggett & Platt, Incorporated
Lorillard, Inc.
Masco Corporation
Mattel, Inc.
McCormick & Company, Incorporated
Mead Johnson Nutrition Company
MeadWestvaco Corporation
Meritor, Inc.
Mohawk Industries, Inc.
Owens-Illinois, Inc.
Pentair, Inc.
Reynolds American Inc.
Sonoco Products Company
SPX Corporation
Tenneco Inc.
Terex Corporation
Trinity Industries, Inc.
United Stationers Inc.
Visteon Corporation
W.W. Grainger, Inc.
Weyerhaeuser Company

We compete for talent with a variety of companies in the U.S. and elsewhere. Accordingly, since our executive talent is likely to come from a variety of industries, the Compensation Committee decided that the comparator group should similarly reflect a robust cross-section of companies and industries. Consequently, a comparator group was developed that was based on companies that provide data to the Aon Hewitt database and which were broadly similar in revenue scope (between $3.0 billion and $8.6 billion in annual revenues). Meridian Compensation Partners applied regression analysis to account for differences in size (i.e., revenues) of the companies in the 2013 comparator group in estimating the market value of each compensation element, a common analytical convention. The median annual revenue of this group was $5.9 billion.

Dr. Pepper Snapple Group, Inc., Flowserve Corporation, The J.M. Smucker Company, Leggett & Platt, Incorporated, Mead Johnson Nutrition Company, Trinity Industries, Inc. and United Stationers Inc. were included in the list of comparator companies for 2013 and not included in the list used for 2012 compensation decisions. Avery Dennison Corporation, Brunswick Corporation, Cameron International Corporation, Eastman Kodak Company, The Mosaic Company, Nalco Holding Company, NCR Corporation, Newell Rubbermaid Inc.,

Quad/Graphics, Inc., The Scotts Miracle-Gro Company, Sealed Air Corporation, Temple-Inland Inc., The Sherwin Williams Company and The Timken Company were included in the 2012 list but not included in the 2013 list. These changes were not choices made by the Compensation Committee. They resulted from changes in the companies providing data to be included in the Aon Hewitt database and/or changes in those companies revenues.

We determine all elements of compensation annually at the same time in order to consider the relationships between all of the compensation elements as well as assess the appropriateness of the total compensation package for each named executive officer. To accomplish this, we review the strength of our financial performance, the executive officers positions and levels of responsibility, internal comparisons, individual performance and historical grant levels, as well as the competitive market data for the compensation comparator group.

Elements of Compensation

As summarized above, our compensation program has five components: base salary, annual incentives, long-term incentive compensation, benefit programs broadly available to employees and a limited number of perquisites. Each element is addressed in the context of competitive conditions and internal comparisons. The Compensation Committee annually reviews each component of compensation including performance metrics and objectives to determine whether they remain properly aligned. Accordingly, there may be changes from year to year in the metrics or other plan design elements we use to measure performance and as the basis for earning the components of compensation.

Base Salary: We target base salaries at the 50th percentile (actual salaries are adjusted for relative experience for the position) relative to executives with similar responsibilities of the compensation comparator group of companies. The specific named executive officer s salary varies based on the level of his or her responsibility, experience, time in position, internal equity considerations and individual performance. Salaries are reviewed annually. All salary actions with respect to named executive officers other than the Chief Executive Officer are recommended by our Chief Executive Officer and reviewed and approved by the Compensation Committee. Our Chief Executive Officer s recommendations are made at the conclusion of our performance review process. Our performance review process requires our Chief Executive Officer to evaluate the other named executive officers performance and contributions against objective metrics and success drivers and to assign a performance rating. This rating system is used for all salaried employees. Based on these ratings our Chief Executive Officer makes salary recommendations considering the named executive officer s time in the position and the salary-50th percentile for the corresponding position in the compensation comparator group.

In 2013, the Chief Executive Officer recommended salary increases for the other named executive officers, and the Compensation Committee approved total salary increases for the executive officers including the Chief Executive Officer. The increases for our named executive officers averaged 5.0%.

Annual Incentive Plan: Our Annual Incentive Plan is our short-term incentive cash compensation program for officers, including the named executive officers. This plan was approved by our shareholders in 2010.

Since its inception, our Annual Incentive Plan has fostered and supported our pay-for-performance philosophy by providing direct incentives to achieve specific financial goals. These goals are based on financial goals for the company recommended by management and approved by our Board of Directors. These plan goals are intended to align performance with our shareholders interests. Earned annual incentives are based on performance relative to the pre-established financial goals and personal objectives.

The Compensation Committee approves a cash, short-term incentive target opportunity for each named executive officer expressed as a percentage of base salary. For 2013, the target awards for the named executive officers ranged

from 75% to 125% of base salary depending on the officer s position, as shown in the table on page 32. Incentive targets are established by the Compensation Committee in part based on market data and in

part based on our Chief Executive Officer s recommendations concerning short-term incentive target awards for specific named executive officers (other than herself). Ms. Gordon s 2013 target was established based on market data and was approved by the Compensation Committee and the independent members of the Board of Directors.

Management recommended and the Compensation Committee approved the performance measures, goals and weightings with respect to the goals as shown in the table below. The Compensation Committee approved each performance measure for the following reasons: EBITDA because it serves as a foundation for our growth and, as a result, shareholder value; operating working capital because it is a key financial metric; and personal objectives because these objectives are important priorities for each individual executive to achieve strategic initiatives. Mr. Fortnum s and Mr. dos Reis goals included regional EBITDA goals for the regional operations for which they were responsible in order to provide an incentive for superior performance of those operations.

Weightings Assigned in 2013 to Each Performance Objective under the

Annual Incentive Plan for the Named Executive Officers

	EBITDA(1)	Regional EBITDA	Operating Working Capital(2)	Personal Objectives
I. S. Gordon	60%		15%	25%
C. K. Beebe	60%		15%	25%
J. C. Fortnum	35%	25%(3)	15%	25%
J. P. Zallie	60%		15%	25%
J. dos Reis	35%	25%(4)	15%	25%

(1) EBITDA is defined as operating income plus depreciation and amortization.
(2) Operating working capital is defined as the 12-month average of current assets less current liabilities excluding cash and cash equivalents, current deferred income tax assets and liabilities, short-term financing and margin and derivative accounts divided by average monthly net sales multiplied by 30 days.
(3) EBITDA for the North America region.
(4) EBITDA for the South America region.

Scales developed for each metric permit participants in our Annual Incentive Plan (AIP) to earn from 0% up to 200% of their annual incentive targets based on achievement from 88% to 115% of the EBITDA goal and achievement of an operating working capital goal from 0% for 57.1 days outstanding to 200% for 47 days outstanding.

Our Board of Directors approves goals and objectives for the company. The Compensation Committee, together with the company s other independent directors, reviews and approves corporate goals and objectives relevant to our Chief Executive Officer s compensation in light of those goals and objectives for the company. The Compensation Committee in conjunction with the company s other independent directors evaluates the Chief Executive Officer s performance in light of those goals and objectives. The Compensation Committee discusses the evaluation with the other directors and recommends compensation for the Chief Executive Officer to the independent directors who approve the Chief Executive Officer s compensation, including base salary and short- and long-term incentive awards.

To be eligible to receive an incentive payment for a performance period, a named executive officer must (i) be an employee of the company on the last day of the performance period, or have terminated employment during the

performance period due to retirement, disability or death, and (ii) have been employed by the company more than six months of the performance period. A named executive officer who is eligible to receive an incentive payment for a performance period, but who was not actively employed during the entire performance period, will receive a prorated payment determined in accordance with rules approved by the Compensation Committee. Annual incentive awards for each performance period are to be paid within two and one-half months after the end of the one-year performance period. The following tables set forth our 2013 financial performance goals established for each named executive officer for 2013 as well as the actual results achieved.

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Summary of 2013 Financial Goals and Actual Results under the

Annual Incentive Plan for the Named Executive Officers

Financial Metrics	2013 Target-Level Goals	2013 Financial Results
EBITDA for the company	$ 911.6 million	$ 806.8 million
EBITDA for the North America Region	$ 506.6 million	$ 497.7 million
EBITDA for the South America Region	$ 251.7 million	$ 156.7 million
Operating Working Capital	52.1 days	54.7 days

Executive Annual Incentives

Payout Percentage Detail 2013

Name	EBITDA % Weighting	EBITDA % Payout	Operating Working Capital % Weighting	Operating Working Capital % Payout	Personal Objectives % Weighting	Personal Objectives % Payout	Total % Payout
I. S. Gordon	60%	52%	15%	74%	25%	140%	77%
C. K. Beebe	60%	52%	15%	74%	25%	150%	80%
J. C. Fortnum	60%	69%(1)	15%	74%	25%	110%	80%
J. P. Zallie	60%	52%	15%	74%	25%	113%	71%
J. dos Reis	60%	31%(2)	15%	74%	25%	80%	50%

(1) Based on 35% weighting to EBITDA for the company and 25% weighting to EBITDA for the North America region.

(2) Based on 35% weighting to EBITDA for the company and 25% weighting to EBITDA for the South America region.

Executive Annual Incentives

Target, Maximum and Actual Awards 2013

Name	AIP Target % of Salary	AIP Target Amount ($)	AIP Maximum(1) % of AIP Target	AIP Maximum(1) Amount ($)	2013 Calculated AIP Payout (paid in March 2014) % of AIP Target	2013 Calculated AIP Payout (paid in March 2014) Amount ($)
I. S. Gordon	125%	$ 1,358,500	200%	$ 2,717,000	77%	$ 1,051,000
C. K. Beebe	80%	$ 465,920	200%	$ 931,840	80%	$ 372,000
J. C. Fortnum	80%	$ 426,400	200%	$ 852,800	80%	$ 342,000
J. P. Zallie	80%	$ 395,200	200%	$ 790,400	71%	$ 279,000

J. dos Reis	75%	$	395,700	200%	$	791,400	50%	$	196,000

(1) These amounts reflect 200% of the target opportunity. In 2013, awards granted to our named executive officers were based upon an incentive pool equal to 3% of our total operating income and an individual allocation of this pool of 40% to our Chief Executive Officer and 15% each to our Chief Financial Officer and each of the other three named executive officers, subject to a maximum award of $5.0 million in each case. The Compensation Committee exercised its discretion to reduce these award amounts based on the metrics described in the discussion of our Annual Incentive Plan.

Annual incentives paid for 2013 were determined based upon achievement of goals set for corporate and regional financial results including EBITDA, operating working capital and personal objectives. For 2013, the

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performance goals for each of the named executive officers were recommended by the Compensation Committee and reviewed and approved by the independent members of the Board of Directors. These goals were based upon financial goals for the company recommended by management and reviewed and approved by the Board of Directors.

The personal objectives component represented 25% of each named executive officer s potential award opportunity. The personal objectives for the Chief Executive Officer and the other named executive officers were recommended by the Compensation Committee and reviewed and approved by the independent members of the Board of Directors. The personal objectives for the named executive officers other than the Chief Executive Officer were recommended by the Chief Executive Officer to the Compensation Committee.

Ms. Gordon s personal objectives were focused on revenue and cost synergies and delivery of growth. In particular her goals were weighted as follows:

Continuous improvement in controllable costs (20%),

Safety (20%),

Results-focused innovation (20%),

Strategic planning (20%),

Succession planning, talent assessment and leadership development (20%).

The personal objectives of the other named executive officers were aligned with Ms. Gordon s personal objectives and focused on those same key areas in varying levels of emphasis and weighting.

At the end of the year, each named executive officer submitted a written self-appraisal. For the named executive officers other than the Chief Executive Officer, the appraisals were reviewed by the Chief Executive Officer. The self-appraisal for the Chief Executive Officer was reviewed by the Compensation Committee. These reviews considered completion of objectives and the quality of work performed and incorporated an element of judgment in assigning individual levels of achievement. A maximum 200% payout on the personal objective component was possible for exceptional achievement.

Based on the Compensation Committee s review of the individual personal objectives and actual achievements for Ms. Gordon and upon Ms. Gordon s recommendations for the other named executive officers, the following achievement percentages were assigned for personal objectives: 140% for Ms. Gordon, 150% for Ms. Beebe, 110% for Mr. Fortnum, 113% for Mr. Zallie and 80% for Mr. dos Reis.

Our Chief Executive Officer can recommend an adjustment to the amount of the Annual Incentive Plan award earned by any other named executive officer (positively or negatively) based on her judgment of that individual s performance and/or her judgment of the degree of difficulty of the goal. In 2013, the Chief Executive Officer did not recommend any adjustments under this provision. Furthermore, the Compensation Committee can adjust the total amount earned and calculated in accordance with the metrics described above from 0% to 150% based on its determination of the

relative strength or weakness of an individual s performance. As a result, an outstanding performer can have his or her total bonus payment increased by 50%; conversely, the bonus can be reduced incrementally to $0 for an unsatisfactory performer. No such adjustments were made under this provision for 2013.

Long-term Incentive Compensation: The principal purpose of our long-term incentive compensation program is to align the rewards to executives with the creation of shareholder value. For our Chief Executive Officer, the grant date value of target long-term incentive compensation comprised 67% of total 2013 target compensation (base salary plus target short- and long-term incentive compensation). For our other named executive officers, the grant date value of target long-term incentive compensation comprised from 35% to 50% of their total 2013 target compensation. We feel this provided an appropriate balance between shorter- and

longer-term compensation and fixed and variable components. In 2013, we awarded long-term incentives to our executive officers in the form of nonqualified stock options, performance shares and restricted stock units granted pursuant to our Stock Incentive Plan. Our goal was to provide awards such that we delivered approximately 40% of the grant date fair value of the long-term incentive award in the form of nonqualified stock options, 35% in the form of performance shares and the remaining 25% in the form of restricted stock units. We used these allocations among stock options, performance shares and restricted stock units to provide a balance of compensation based on absolute stock price growth and superior relative performance-based shareholder return. We continue to evaluate the appropriate mix of long-term incentive compensation vehicles in comparison to the market to best support our long-term business strategy.

Stock Options. We determined the February 2013 grant of nonqualified stock options by converting 40% of the targeted long-term incentive compensation value for each named executive officer to a number of stock options using an estimated Black-Scholes option value. Stock options were granted to eligible management employees, and the exercise price of such options was established on February 5, 2013. All of the options granted to our named executive officers are nonqualified stock options with ten-year terms that vest in one-third increments on the first three anniversaries of the date of the grant.

We make long-term incentive grants at the Compensation Committee s first meeting each year, typically in early February, and at the same time other elements of compensation are determined so that we can consider all elements of compensation simultaneously.

Performance Shares. In 2011, 2012 and 2013, performance shares comprised 35% of the targeted long-term incentive compensation value. Performance shares awarded will be earned based on our relative total shareholder return (TSR) relative to our performance share peer group for a three-year cycle. The performance shares are intended to focus our executive officers on achieving critical multi-year goals, in particular, delivering superior shareholder returns relative to a comparator group. We believe that over time investors will choose our stock if they believe it will, at least, perform as well as a relevant group of peers and with strong expectations that we might outperform those peers. The Compensation Committee regularly reviews the design of the performance shares, including performance metrics, to ensure the grants continue to be aligned with maximizing shareholder returns by achieving growth and value-generation goals. To further promote executive share ownership and shareholder alignment, vested performance shares are paid in common stock. No dividends are earned on any performance shares prior to the stock payment.

As with prior years, for performance shares awarded in 2013, we set the relative TSR target award at the 55th percentile of the performance share peer group described below because we wanted to reward for above-average performance in our long-term incentive plan. TSR is defined for purposes of the performance shares as the sum of (a) change in stock price (ending stock price minus starting stock price) plus (b) dividends paid divided by beginning stock price. Beginning stock price is the average of the daily average prices for each of the 20 trading days immediately prior to the first day of the performance period. Ending stock price is the average of daily average prices for each of the last 20 trading days of the performance period. The daily average prices are the average of the high and low prices on the NYSE for one share of common stock on the date of determination. Dividends paid were the total of all dividends paid on one share of common stock during the applicable calendar quarter(s) during the performance period with dividends treated as though they were reinvested at the end of each calendar quarter based on the stock price at the end of each calendar quarter.

Performance shares are earned based on our relative percentile ranking with respect to TSR for members of our performance share peer group. The performance/reward scale for the 2013 grant is as follows:

	Threshold Performance (50% of Shares)	**Target Performance** (100% of Shares)	**Maximum Performance** (200% of Shares)
Relative Total Shareholder Return	40th percentile	55th percentile	80th percentile

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The performance share peer group for the performance shares granted in 2013 consisted of Ingredion and the 19 companies listed below.

AGRICULTURAL PROCESSING	AGRICULTURAL CHEMICALS
Archer-Daniels-Midland Company	Agrium, Inc.
Bunge Limited	Monsanto Company
Gruma, S.A. de C.V.	Potash Corporation of Saskatchewan Inc.
MGP Ingredients, Inc.	Syngenta AG
Penford Corporation	Terra Nitrogen Company, L.P.
Tate & Lyle PLC	
AGRICULTURAL PRODUCTION/FARM PRODUCTION	**PAPER/TIMBER**
Alico, Inc.	Deltic Timber Corporation
Alliance One International, Inc.	MeadWestvaco Corporation
Universal Corporation	Potlatch Corporation
	Resolute Forest Products Inc.
	Wausau Paper Corp.

These companies were recommended by management and approved by our Compensation Committee on the basis of their Standard Industrial Classification codes and their inclusion in the former S&P Basic Materials Index in which we were also included. The performance share peer group was utilized for this purpose rather than the compensation comparator group because we believe investors are more likely to consider the stocks of these companies as alternatives to an investment in our stock than the companies in the compensation comparator group, in part because their business operations are more similar to ours. Buckeye Technologies Inc. was originally in the group but has been eliminated because it was acquired by Georgia-Pacific LLC.

We believe that the compensation comparator group is more representative of industries from which we may attract talent. Therefore, we use it to determine competitive compensation levels. We believe the use of two separate groups of companies is appropriate and not uncommon given the different purposes for comparison.

Results of 2011-2013 Performance Awards. Relative TSR for this 3-year performance cycle was at the 68th percentile. Consequently, 143.3% of the target number of performance shares granted in February 2011 were earned. The 2011 performance peer group was the same as the 2013 performance peer group. TSR was used because it is a direct measure of the value delivered to shareholders relative to other comparable investments. The performance/reward scale for the 2011-2013 cycle at threshold, target and maximum levels was the same as for the 2010-2013 cycle shown above.

Restricted Stock Units. Restricted stock units represent the right to receive a share of common stock upon vesting. Restricted stock units are granted to align the interests of named executive officers with the interests of our shareholders. They promote retention of critical executive talent. They also help balance the named executive officers long-term incentive compensation mix to minimize risk taking. Finally, they result in the issuance of a lesser amount of shares to provide an equivalent amount of compensation compared to stock options. We determined the February 2013 grant by converting 25% of the targeted long-term incentive compensation value for each named executive officer to a number of restricted stock units using the closing price of a share of our common stock on the date of grant. Restricted stock units granted to the named executive officers in February 2013 vest on the third anniversary of the date of the grant. The restricted stock units vest on a pro rata basis in the event of death, disability or retirement on or after age 65, age 55 with ten years of service or age 62 with five years of service. As of each dividend payable date,

additional restricted stock units equivalent to the value of the dividend are credited to the award. The additional restricted stock units carry the same terms and conditions as the underlying award.

Retirement and Other Benefits: We also provide benefits such as medical, dental and life insurance and disability and accidental death and dismemberment coverage to each named executive officer. These benefits are

also provided to all eligible U.S.-based employees. Eligible employees, including the named executive officers, can purchase additional life, dependent life and accidental death and dismemberment coverage as part of their active employee benefits. In addition, all salaried employees in the U.S. are eligible to participate in our Cash Balance Pension Plan, our Retirement Savings Plan and our Retiree Health Care Spending Accounts (RHCSA). Eighteen current employees, including two named executive officers, who were participating in our legacy Executive Life Insurance Plan that was established by our former parent company prior to our becoming an independent public company are provided with split-dollar life insurance. This plan has been frozen.

Cash Balance Plan. Our Cash Balance Plan is a defined benefit qualified pension plan which is available to all U.S. salaried employees. Accounts of participants in the Cash Balance Plan accrue pay credits based on years of service and monthly interest credits using a rate equal to a specified amount above the interest rate on short-term U.S. Treasury notes. Pay credits are calculated as a percentage (3% to 10%) of a salaried employee s eligible compensation (defined as base salary, overtime and earned Annual Incentive Plan award). The pay credit percentage is determined by the employee s years of service and reaches and remains at 10% after 35 years of service. The value of a participant s account at retirement is paid out either as a life or a joint and survivor annuity or in an optional form, such as a lump sum if certain funding conditions are met. The Cash Balance Plan provides for a three-year vesting period. All of the named executive officers other than Mr. dos Reis participate in the Cash Balance Plan.

To the extent that an employee s annual retirement income benefit under the Cash Balance Plan exceeds the limitations imposed by the U.S. Internal Revenue Code, additional benefits may be provided by our nonqualified Supplemental Executive Retirement Plan through a Cash Balance Make-up Account to which we contribute the amounts that we would contribute to the Cash Balance Plan absent those limitations. All of the named executive officers other than Mr. dos Reis participate in Cash Balance Make-up Accounts.

Supplemental Executive Retirement Plan. Certain of our U.S.-based eligible employees, including all the named executive officers other than Mr. dos Reis, are entitled to participate in our Supplemental Executive Retirement Plan (SERP). The purpose of this nonqualified, unfunded plan is to (a) permit certain key executives to defer receipt of a portion of current compensation, including short- and long-term incentive payments, until a later year, (b) provide participants and their beneficiaries with the amount of retirement income that is not provided under the Cash Balance Plan or the Retirement Savings Plan by reason of statutory limits on eligible compensation under tax-qualified plans and (c) preserve the opportunity for executives to continue to defer compensation that was deferred under previously maintained plans.

SERP participants are general, unsecured creditors of the company.

Retirement Savings Plan. Our Retirement Savings Plan is a tax-qualified 401(k) savings plan that offers U.S. salaried employees the opportunity to contribute up to 25% of their eligible compensation on either a before-tax or after-tax basis. The company matches 100% of employee contributions up to the first 6% of eligible compensation contributed. Employee contributions are fully vested upon contribution. Company contributions are vested over three years of qualified employment with the company.

In addition to the Retirement Savings Plan, certain of our U.S.-based eligible employees, including all the named executive officers other than Mr. dos Reis, are entitled to participate in Annual Deferral Accounts and Savings Plan Make-up Accounts under the nonqualified SERP. To the extent that benefits are limited under the Retirement Savings Plan due to statutory limits on compensation and deferral under tax-qualified plans, participants are permitted to defer compensation under the SERP. We make matching contributions to Savings Plan Make-up Accounts that mirror our contributions to the Retirement Savings Plan. A participant is vested in his or her Savings Plan Make-up Account to the extent that he or she is vested in the Retirement Savings Plan employer matching contributions.

Mr. dos Reis participated in our Argentinean subsidiary s defined contribution savings plan. This plan offers qualified plan participants the opportunity to contribute up to 8% of their eligible compensation on a before-tax

basis. The Argentinean subsidiary matches 100% of employee contributions up to 8% of eligible compensation contributed. Employee contributions are fully vested upon contribution. The Argentinean subsidiary s contributions are vested proportionally after five years of qualified employment with the subsidiary and fully vested after 10 years of qualified employment with the subsidiary. Accounts of participants in this plan accrue monthly interest credits according to the actual investment return gained plus the subsidiary s and participants contributions. The total value of the participant s account, including participant and subsidiary contributions and earnings on both, is paid out at retirement as a lump sum, or in case of terminations where specific rules and restrictions apply, according to plan regulation.

Retiree Health Care Spending Accounts. A RHCSA account is being provided to Ms. Beebe and will be provided to Ms. Gordon and Mr. Fortnum provided their employment with the company is terminated at or after age 55 with ten years of service (age 62 with five years of service in the case of Ms. Gordon). The accounts provide assistance in purchasing pre-age 65 retiree medical and dental coverage from the company and to reimburse for a Medicare supplement policy for coverage at age 65 or older. At termination, qualified employees have access to a RHCSA for themselves and a RHCSA in an equal amount for their then qualified dependents. The balances in these accounts may be used by the pre-age 65 retiree and dependents to purchase from the company, at the company s full cost, the medical and dental benefits provided by the company to active employees.

The balances in these notional accounts are forfeited if the employee terminates employment prior to age 55 and ten years of service at the time of termination (age 62 with five years of service in the case of Ms. Gordon). The accounts otherwise terminate on the death of the employee for the employees RHCSA and upon the death of the qualified dependent in the case of his or her RHCSA.

Mr. Zallie as a former employee of National Starch LLC is entitled to medical coverage with reduced premiums that mirrors the active health plan prior to age 65 if he retires after age 55 with ten or more years of continuous service or he attains age 65 after terminating employment due to total disability. If he retires after age 55 with ten or more years of continuous service or he attains age 65 after terminating employment due to total disability, he and his spouse (after attaining age 65) will each be entitled to up to $1,500 per year to be spent on specified Medicare supplement medical and prescription drug plans selected by the company.

Executive Life Insurance Plan. Eighteen current U.S. salaried employees, including Ms. Beebe and Mr. Fortnum, participate in our Executive Life Insurance Plan. This is a legacy plan which was established by our former parent company before we became an independent public company, and all of the insurance policies were purchased by our former parent company. This plan and plan benefits are frozen, and we will not offer this benefit to any employees who do not already participate in it. This is a split-dollar life insurance plan which provides the participant with a greater death benefit than provided under our basic life insurance plan. Additionally, at the later of age 65 or 15 years from the purchase of a policy included in this plan, participants are given full ownership of the life insurance policies. Participants annual premiums are calculated to be the amount sufficient to pay for the cost of the life insurance being provided.

We make payments to the participating named executive officers in the amount of the participant premiums under the Executive Life Insurance Plan and continue to do so after their retirement from the company. We also make payments to these two named executive officers in the amount of taxes due as a result of such payments.

Perquisites and Other Personal Benefits: We provide our named executive officers with perquisites and other personal benefits that we believe are reasonable and appropriate because they help make our compensation packages competitive and better enable the company to attract and retain executives for key positions and are not excessive.

We provide each named executive officer an automobile. We lease and pay all the costs of operating these automobiles, including insurance for the U.S.-resident named executive officers. Our Argentinean subsidiary

owned the automobile which was provided for Mr. dos Reis use. Each of the named executive officers is subject to income tax on the imputed income resulting from his or her benefit. Each of the named executive officers also receives financial planning and tax preparation services, the value of which constitutes taxable income to the recipient. We also provide annual physical examinations to our named executive officers.

The values of these perquisites are included in the Summary Compensation Table in the column headed All Other Compensation.

Change in Control Agreements. We have a severance agreement with each of the named executive officers other than Mr. dos Reis that requires us or a successor company to make certain payments and provide certain benefits if the officer s employment is terminated by us or the successor company other than because of death, Disability or Cause, or is terminated by the officer for Good Reason, in each case, within two years after a change in control of the company. Disability, Cause and Good Reason are defined in these severance agreements. These agreements are intended to encourage retention in the face of an actual or rumored change in control. In addition, these agreements are intended to align executives and shareholders interests by enabling executives to consider corporate transactions that are in the best interests of the shareholders and other constituents of the company without undue concern over whether the transactions may jeopardize the executives own employment. Because these agreements are provided to satisfy different objectives than our regular compensation program, decisions made under this program do not affect our regular compensation program.

The terms of these agreements are similar to those provided by other companies, and we provide them in part because we believe we need to do so to provide a competitive compensation package. Information regarding potential payments under these agreements for the named executive officers is provided under the heading Estimated Potential Payments upon Change in Control on page 52.

Leadership Transition

Cheryl K. Beebe, Executive Vice President and Chief Financial Officer, retired from that position on January 6, 2014 and retired as an employee of the company on February 8, 2014. She was succeeded as Chief Financial Officer by Jack C. Fortnum. Julio dos Reis, Senior Vice President and President, South America Ingredient Solutions, retired from those positions and as an employee of the company on December 31, 2013.

Executive Stock Ownership Requirements

We maintain stock ownership requirements for our named executive officers. The ownership requirements are five times her current annual base salary for our Chief Executive Officer and three times their base annual salaries for each of the other named executive officers. We count direct and indirect ownership of our common stock, including restricted stock, restricted stock units and phantom stock units, but do not include stock options or unvested performance shares in determining whether the ownership requirements are satisfied. Named executive officers are expected to attain their ownership targets within five years from the time the targets become applicable. Named executive officers are not permitted to sell shares of common stock other than to fund the payment of exercise price of options or to fund the payment of taxes upon the exercise of options or vesting of shares of restricted stock or restricted stock units at any time when they have not attained their ownership targets. As of December 31, 2013, all of our named executive officers either exceeded their stock ownership targets or were within the five-year compliance window in which to meet those ownership targets.

Other Items

Timing of Stock Option Grants

Our Compensation Committee reviews and approves management s recommendations for option grants annually. This occurs during the first Compensation Committee meeting of the fiscal year. The Compensation Committee approves grants of options to named executive officers at the same time they are granted to all other

eligible employees. We do not time such grants in coordination with the company s possession or release of material, non-public or other information. Meetings of the Compensation Committee are generally scheduled at least a year in advance.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code imposes a $1 million limit on the amount that a public company may deduct for compensation paid to the company s Chief Executive Officer or any of the company s four other executive officers, other than the Chief Executive Officer, whose compensation is required to be disclosed in this proxy statement by reason of their being among the most highly compensated officers for the taxable year and who are employed by the company as of the end of the year. This limitation does not apply to compensation that meets the requirements under Section 162(m) for qualifying performance-based compensation (i.e., compensation paid only if the individual s performance meets pre-established objective goals based on performance criteria approved by shareholders). For 2013, the grants of stock options and restricted stock units, the payments under the Annual Incentive Plan and the performance share awards were designed to satisfy the requirements for deductible compensation. However, we may decide to pay non-deductible variable compensation. In addition, salaries are not considered performance-based compensation under Section 162(m); therefore, a portion of our Chief Executive Officer s salary is not tax deductible by us. Because a 2006 amendment to SEC regulations requires that we disclose the Chief Financial Officer s compensation in our proxy statement whether or not he or she is one of our four most highly compensated executive officers other than the Chief Executive Officer, Section 162(m) does not limit our deduction for compensation paid to our Chief Financial Officer.

Compensation Recovery Policy

Effective January 1, 2014, the Board of Directors has adopted a recoupment or clawback policy for cash and equity incentive awards paid to executive officers. The policy provides that in the event there is a restatement of incorrect financial results, the Compensation Committee in its discretion will seek reimbursement of the incremental portion of awards paid to executive officers in excess of the awards that would have been paid based on the restated financial results. All forms of incentive compensation are subject to this policy. The Compensation Committee may look back over the three-year period prior to the restatement for the recoupment and may look to current and former executives. In addition, the policy provides the Compensation Committee the discretion to recoup amounts of excess incentive compensation paid to any officer in conjunction with any incorrect results (even if not resulting in a restatement), or misconduct on the part of the officer, constituting fraud, commission of a felony, material violation of any written agreement with or policies of the company, or any other material breach of fiduciary duty injurious to the company. In addition, our Chief Executive Officer and Chief Financial Officer are subject to any clawbacks that may be required under the Sarbanes-Oxley Act of 2002.

Anti-Hedging and Anti-Pledging Policies

Effective February 4, 2014, the company adopted an Anti-Hedging and Anti-Pledging Policy. The policy prohibits our executive officers and directors from (a) hedging the risk of ownership in company stock and incentive awards and (b) except in limited circumstances, pledging shares of company stock as collateral for a loan or other obligation.

Corporate Governance Highlights

The Compensation Committee is briefed regularly on best practices and corporate governance developments in relation to executive compensation. Our executive compensation policies and practices include:

Independent compensation committee. The Compensation Committee, which is comprised solely of independent directors, approves the compensation of the named executive officers.

Independent compensation consultant. The Compensation Committee has retained an independent compensation consultant.

No employment agreements. None of our U.S.-based executive officers has an employment agreement with the company.

Limited perquisites. Executives receive only limited perquisites.

Excise tax gross-ups. Beginning in 2010 our executive officers entering into new severance agreements have not been provided with excise tax gross-ups in the event of a change in control.

Share ownership requirements. We have meaningful share ownership requirements for executive officers.

Policies. In 2014, we adopted a clawback policy and a policy prohibiting the hedging and pledging of company stock.

Summary Compensation Table

The following narrative, tables and footnotes describe the total compensation earned by our named executive officers for 2011, 2012 and 2013. The components of the total compensation reported in the Summary Compensation Table are described below. For information on the role of each component within the total compensation package, refer to the description under *Compensation Discussion and Analysis* beginning on page 25.

Salary. This column represents the base salary earned during 2011, 2012 and 2013 and includes any amounts deferred under our Retirement Savings Plan and SERP.

Bonus. No bonuses were paid in 2011, 2012 or 2013.

Stock Awards. This column represents the aggregate grant date fair value of performance shares, restricted stock units and shares of restricted stock granted in the current and prior years, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 (FASB ASC Topic 718). Additional information regarding the awards is set forth in the *Grants of Plan-Based Awards in Fiscal 2013* table on page 43 and the *Outstanding Equity Awards at 2013 Fiscal Year-End* table on page 44. The assumptions used in determining the fair value of the awards are set forth in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for each respective year covered by the Summary Compensation Table (notes 2 and 12 in the reports for 2011 and 2012 and notes 2 and 10 in the report for 2013). We caution that the actual amounts ultimately realized from the disclosed performance share awards, restricted stock units and shares of restricted stock will likely vary from the disclosed amounts based on a number of factors, including the amounts of the actual awards, our actual operating performance, stock price fluctuations, differences from the valuation assumptions used and the timing of exercise or applicable vesting. The actual value the named executive officer receives will depend on the number of shares earned and the price of a share of our common stock when the shares vest. Because the accounting valuation for the performance share awards is calculated using a Monte Carlo simulation model, the target value utilized by the Compensation Committee to determine the number of performance shares to grant differs slightly from the valuation used for accounting purposes.

Option Awards. This column represents the grant date fair value of stock option awards granted in the current and prior years, computed in accordance with FASB ASC Topic 718. Additional information regarding the awards is set forth in the *Grants of Plan-Based Awards in Fiscal 2013* table on page 43 and the *Outstanding Equity Awards at 2013 Fiscal Year-End* table on page 44. The assumptions used in determining the fair value of the awards are set forth in the notes to our consolidated financial statements contained in our Annual Report on Form 10-K for each respective year covered by the Summary Compensation Table (notes 2 and 12 in the reports for 2011 and 2012 and notes 2 and 10 in the report for 2013). We caution that the actual

amounts ultimately realized by the named executive officers from the disclosed option awards will likely vary based on a number of factors, including our actual operating performance, stock price fluctuations, differences from the valuation assumptions used and the timing of exercise or applicable vesting. Because we consider vesting restrictions and forfeiture assumptions to determine the grant date fair value of stock option awards, the target value utilized by the Compensation Committee to determine the number of stock options to grant differs slightly from the valuation used for accounting purposes and disclosed in this column. Stock options granted in 2011, 2012 and 2013 vest in three equal installments on the first three anniversaries of their dates of grant.

Non-Equity Incentive Plan Compensation. This column represents cash awards earned under our Annual Incentive Plan, which is discussed in further detail beginning on page 30 under *Compensation Discussion and Analysis* beginning on page 25.

Change in Pension Value and Nonqualified Deferred Compensation. This column represents the aggregate actuarial increase in the present value of benefits under all of our pension plans. The amounts were determined by using interest rate and mortality rate assumptions consistent with those used in our consolidated financial statements. In 2012, these amounts also included the amount by which interest earned on deferred compensation deemed to be invested at the prime rate exceeded the interest that would have been earned on those investments at 120% of the applicable federal long-term rate (as prescribed under Section 1274(d) of the Internal Revenue Code).

All Other Compensation. Consistent with our emphasis on performance-based pay, perquisites and other compensation are limited in scope and are primarily comprised of retirement benefit contributions and company-provided automobiles.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards(1) ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(2) ($)	All Other Compensation(3) ($)	Total ($)
Ilene S. Gordon Chairman of the	2013	$ 1,083,733	$	$ 3,029,258	$ 1,554,690	$ 1,051,000	$ 101,616	$ 184,459	$ 7,004,756
Board,	2012	$ 1,043,500	$	$ 3,176,208	$ 1,459,248	$ 1,658,344	$ 113,423	$ 189,470	$ 7,640,193
President and Chief Executive Officer	2011	$ 966,000	$	$ 2,831,020	$ 1,135,484	$ 1,839,510	$ 97,824	$ 57,664	$ 6,927,502

Cheryl K. Beebe Former Executive	2013	$ 580,533	$	$ 627,218	$ 323,447	$ 372,000	$ 185,120	$ 36,895	$ 2,125,213
Vice	2012	$ 557,792	$	$ 680,616	$ 310,272	$ 561,000	$ 188,104	$ 41,074	$ 2,338,858
President and Chief Financial Officer(4)	2011	$ 531,396	$	$ 590,358	$ 275,912	$ 637,000	$ 210,552	$ 40,109	$ 2,285,327
Jack C. Fortnum Executive Vice	2013	$ 531,500	$	$ 560,476	$ 289,494	$ 342,000	$ 155,941	$ 94,900	$ 1,974,311
President	2012	$ 513,542	$	$ 604,992	$ 279,568	$ 553,000	$ 186,882	$ 99,160	$ 2,237,144
and President, North America(5)	2011	$ 496,292	$	$ 573,325	$ 265,300	$ 578,000	$ 168,423	$ 98,916	$ 2,180,256
James P. Zallie Executive Vice	2013	$ 492,417	$	$ 480,408	$ 248,393	$ 279,000	($ 69,400)	$ 76,666	$ 1,507,484
President, Global Specialties	2012	$ 472,917	$	$ 522,561	$ 240,784	$ 443,000	$ 626,605	$ 146,791	$ 2,452,658
and President, EMEA and Asia-Pacific(6)	2011	$ 447,917	$	$ 484,689	$ 227,400	$ 526,000	$ 323,896	$ 66,372	$ 2,076,274
Julio dos Reis	2013	$ 548,000(8)	$	$ 300,227	$ 155,469	$ 196,000(8)	$	$ 59,189	$ 1,258,885
Former Senior Vice President and	2012	$ 494,094(8)	$	$ 334,107	$ 155,136	$ 373,000(8)	$	$ 91,235	$ 1,447,572
President, South America Ingredient Solutions(7)	2011	$ 452,588(8)	$	$ 278,146	$ 128,860	$ 485,000(8)	$	$ 57,666	$ 1,402,260

(1) Stock Awards in 2013 include performance share awards, restricted stock units and restricted stock units related to the dividend equivalents on restricted stock units previously granted. For the performance shares granted in 2013, assuming the highest level of performance conditions will be achieved, the maximum grant date value would be as follow: Ms. Gordon, $3,561,070; Ms. Beebe, $739,090; Mr. Fortnum, $658,462; Mr. Zallie, $564,396; and Mr. dos Reis, $349,388.

(2) For 2013, this consists of the actuarial increase in the value of the company s Cash Balance Plan and Cash Balance Make-up Account. For Mr. Fortnum, the 2013 amount also includes a $5,083 decrease in the value of Mr. Fortnum s interest in the Ingredion Canada Pension Plan. For

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Mr. Zallie, the 2013 amount also includes a $155,969 decrease in the value of Mr. Zallie s interest in the National Starch LLC Pension Plan and National Starch Excess Pension Plan.

(3) The following table provides additional information on the amounts reported in the All Other Compensation column of the Summary Compensation Table for 2013.

All Other Compensation Table

Named Executive Officer	Company Contributions to Qualified and Non-Qualified Savings Plans	Payments Equal to Life Insurance Premiums	Tax Payments Related to Life Insurance	Perquisites	Total All Other Compensation
I. S. Gordon	$ 164,525	$	$	$ 19,934	$ 184,459
C. K. Beebe	$ 15,300	$ 3,396	$ 2,264	$ 15,935	$ 36,895
J. C. Fortnum	$ 65,070	$ 8,146	$ 5,431	$ 16,253	$ 94,900
J. P. Zallie	$ 56,125	$	$	$ 20,541	$ 76,666
J. dos Reis	$ 35,305	$	$	$ 23,884	$ 59,189

Company Contributions to Savings Plans: The company makes matching contributions for compensation contributed by participants under our Retirement Savings Plan and SERP Savings Plan Make-up Accounts. The matching contributions for 2013 are set forth in the table above. For Mr. dos Reis, this amount represents our Argentinean subsidiary s company contributions under its defined contribution savings plan.

Life Insurance: Ms. Beebe and Mr. Fortnum participate in our Executive Life Insurance Plan. The amounts in the table include payments equal to the amount of participant premiums on life insurance policies for their benefit. These policies were purchased by our former parent company, and we have continued to maintain the policies based upon the commitment to provide such benefits to each participant. The premiums on these policies are based on the insurance company s underwriting requirements.

Tax Payments Related to Life Insurance: As participants in the Executive Life Insurance Plan, Ms. Beebe and Mr. Fortnum receive payments in the amount of taxes due as a result of the payments made equal to the amount of their participant premiums.

Perquisites: These amounts include the costs of providing a leased automobile or the use of a company automobile to each of our named executive officers, financial planning and tax preparation services and executive physicals and, for Mr. dos Reis, security services and statutory meal reimbursements.

(4) Ms. Beebe, former Executive Vice President and Chief Financial Officer, retired from that position on January 6, 2014 and retired as an employee of the company on February 8, 2014.

(5) Mr. Fortnum has served as Executive Vice President and Chief Financial Officer since January 6, 2014.

(6) Mr. Zallie has served as Executive Vice President, Global Specialties and President, North America and EMEA since January 6, 2014.

(7) Mr. dos Reis, former Senior Vice President and President, South America Ingredient Solutions, retired from those positions and as an employee of the company on December 31, 2013.

(8) Mr. dos Reis was employed by our Argentinean subsidiary and his salary and non-equity incentive plan compensation were paid a portion in U.S. Dollars and a portion in Argentinean Pesos. The amounts shown and paid are based on the monthly average exchange rates for the Argentinean Peso per U.S. Dollar with respect to the

applicable year published by the Internal Revenue Service. The yearly average exchange rate for 2013 was 0.17532 Argentinean Peso per U.S. Dollar.

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Grants of Plan-Based Awards in Fiscal 2013

The following table contains information relating to grants to the named executive officers during 2013 of awards under our Annual Incentive Plan and performance shares, restricted stock units and stock options under our Stock Incentive Plan.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Da Fair Valu of Stock a Option Awards
me	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	($/Sh)(3)	($)(4)
. Gordon	2/5/2013	$ 679,250	$ 1,358,500	$ 2,717,000							
	2/5/2013				13,250	26,500	53,000				$ 1,780,53
	2/5/2013							18,900			$ 1,248,72
	2/5/2013								87,000	$ 66.07	$ 1,554,69
K. Beebe	2/5/2013	$ 232,960	$ 465,920	$ 931,840							
	2/5/2013				2,750	5,500	11,000				$ 369,54
	2/5/2013							3,900			$ 257,67
	2/5/2013								18,100	$ 66.07	$ 323,44
C. Fortnum	2/5/2013	$ 213,200	$ 426,400	$ 852,800							
	2/5/2013				2,450	4,900	9,800				$ 329,23
	2/5/2013							3,500			$ 231,24
	2/5/2013								16,200	$ 66.07	$ 289,49
P. Zallie	2/5/2013	$ 197,600	$ 395,200	$ 790,400							
	2/5/2013				2,100	4,200	8,400				$ 282,19
	2/5/2013							3,000			$ 198,21
	2/5/2013								13,900	$ 66.07	$ 248,39
los Reis	2/5/2013	$ 197,850	$ 395,700	$ 791,400							
	2/5/2013				1,300	2,600	5,200				$ 174,69
	2/5/2013							1,900			$ 125,53
	2/5/2013								8,700	$ 66.07	$ 155,46

(1) These amounts reflect the terms of the awards under our Annual Incentive Plan. The actual amounts paid under the Annual Incentive Plan with respect to awards made in 2013 are included in amounts for 2013 in the column

captioned Non-Equity Incentive Plan Compensation in the Summary Compensation Table above.

(2) These amounts reflect the terms of grants of performance shares under our Stock Incentive Plan. The grant date fair values of these shares are included in the column captioned Stock Awards in the Summary Compensation Table above.

(3) The exercise price for these options is the closing price of a share of our common stock on the date of grant.

(4) This column shows the grant date fair value of stock awards and option awards under FASB ASC Topic 718. Generally, the full grant date fair value is the amount the company would expense in its financial statements over the award s vesting schedule. For stock options, fair value is calculated based on the grant date fair values estimated by us using the Black-Scholes option pricing model for financial reporting purposes, $17.87 for the grants on February 5, 2013. For additional information on the valuation assumptions, see notes 2 and 10 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. We caution that the actual amounts ultimately realized by the named executive officers from the disclosed stock and option awards will likely vary based on a number of factors, including the amounts of the actual awards, our actual operating performance, stock price fluctuations, differences from the valuation assumptions used and the timing of exercise or applicable vesting. The options vest in three equal installments on the first, second and third anniversaries of the date of grant.

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Outstanding Equity Awards at 2013 Fiscal Year-End

The following table contains information relating to stock options, performance shares and restricted stock units held by our named executive officers at December 31, 2013.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested(10) ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(11) (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested(10) ($)
I. S. Gordon	100,700			$ 29.90	01/26/20				
	49,933	24,967(1)		$ 47.95	02/07/21				
	30,100	60,200(2)		$ 55.95	02/06/22				
		87,000(3)		$ 66.07	02/04/23	78,486(6)	$ 5,373,152		
								55,900	$ 3,826,914
C. K. Beebe	12,133	6,067(1)		$ 47.95	02/07/21				
	6,400	12,800(4)		$ 55.95	02/06/22				
		18,100(5)		$ 66.07	02/04/23	13,215(7)	$ 904,699		
								11,800	$ 807,828
J. C. Fortnum	23,600			$ 34.36	01/28/18				
	36,800			$ 28.75	01/25/20				
	11,666	5,834(1)		$ 47.95	02/07/21				
	5,766	11,534(2)		$ 55.95	02/06/22				
		16,200(3)		$ 66.07	02/04/23	12,187(8)	$ 834,322		
								10,500	$ 718,830
	10,000	5,000(1)		$ 47.95	02/07/21				

J. P. Zallie									
	4,966	9,934(2)	$ 55.95	02/06/22					
		13,900(3)	$ 66.07	02/04/23	10,430(9)	$	714,038		
								9,000	$ 616,140
J. dos Reis									

(1) These options vested on February 8, 2014.
(2) One half of these options vested on February 7, 2014, and the other half will vest on February 7, 2015.
(3) One third of these options vested on February 5, 2014, and the other two thirds will vest in equal annual installments on February 5, 2015 and February 5, 2016, respectively.
(4) One half of these options vested on February 7, 2014, and the other half vested on February 8, 2014 through action by the Compensation Committee.
(5) 6,033 of these options vested on February 5, 2014, and 12,067 of these options vested on February 8, 2014 through action of the Compensation Committee.
(6) 9,865 of these restricted stock units will vest ratably over three years on each May 4 beginning May 4, 2014; 27,716 of these restricted stock units vested on February 8, 2014, 21,690 of these restricted stock units will vest on February 7, 2015 and 19,215 of these restricted stock units will vest on February 5, 2016. During the vesting periods, nonvested restricted stock units earn dividend equivalents, which are credited as additional restricted stock units, subject to the same vesting and restricted periods as the original restricted stock units.
(7) 9,022 of these restricted stock units vested on February 8, 2014, and 4,193 of these restricted stock units vested on February 8, 2014 through action of the Compensation Committee.
(8) 4,497 of these restricted stock units vested on February 8, 2014, 4,132 of these restricted stock units will vest on February 7, 2015 and 3,558 of these restricted stock units will vest on February 5, 2016. During the vesting periods, nonvested restricted stock units earn dividend equivalents, which are credited as additional restricted stock units, subject to the same vesting and restricted periods as the original restricted stock units.
(9) 3,765 of these restricted stock units vested on February 8, 2014, 3,615 of these restricted stock units will vest on February 7, 2015 and 3,050 of these restricted stock units will vest on February 5, 2016. During the vesting periods, nonvested restricted stock units earn dividend equivalents, which are credited as additional restricted stock units, subject to the same vesting and restricted periods as the original restricted stock units.
(10) Value stated is the number of unvested shares multiplied by the closing price of a share of our common stock on December 31, 2013 ($68.46).

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(11) Reflects the following unearned performance shares in the 2012 and 2013 performance share awards (at the target performance level) and the value using the stock price on December 31, 2013 ($68.46).

Name	2012 Performance Shares Target Shares (#)	2012 Performance Shares Value($)	2013 Performance Shares Target Shares (#)	2013 Performance Shares Value($)
I. S. Gordon	29,400	$ 2,012,724	26,500	$ 1,814,190
C. K. Beebe	6,300	$ 431,298	5,500	$ 376,530
J. C. Fortnum	5,600	$ 383,376	4,900	$ 335,454
J. P. Zallie	4,800	$ 328,608	4,200	$ 287,532
J. dos Reis		$		$

These performance shares will be earned over three-year performance periods ending December 31, 2015 and 2016, respectively. Ms. Beebe will be entitled to a pro rata portion of the earned portions of such awards proportional to the portions of the performance periods during which she was an employee.

Option Exercises and Stock Vested in Fiscal 2013

The following table contains information concerning the exercise of stock options by our named executive officers and vesting of performance share units and restricted stock units held by them during 2013.

Name	Option Awards(1) Number of Shares Acquired on Exercise (#)	Option Awards(1) Value Realized on Exercise ($)	Stock Awards(2) Number of Shares Acquired on Vesting (#)	Stock Awards(2) Value Realized on Vesting ($)
I. S. Gordon		$	39,797	$ 2,405,047
C. K. Beebe	40,834	$ 1,399,231	8,886	$ 529,428
J. C. Fortnum	40,000	$ 1,437,664	8,600	$ 512,388
J. P. Zallie		$	7,310	$ 435,530
J. dos Reis	9,033	$ 200,375	8,334	$ 533,631

(1) Represents the number of stock options exercised in 2013. The value realized upon exercise is equal to the number of options exercised multiplied by the difference between the closing price of a share of our common stock on the date of exercise and the exercise price.

(2) Represents the number of performance shares and restricted stock units vesting in 2013. The number of shares acquired as a result of the vesting of restricted stock units includes the restricted stock units credited as dividend equivalents on each dividend payable date. The value realized upon vesting is computed by multiplying the number of performance shares by the stock price on the date of payment (February 4, 2014) with respect to the performance shares and by the stock price on the vesting date with respect to restricted stock units.

The final restricted stock units and performance shares vested and the value realized are set forth below.

	2011 Performance Shares		Restricted Stock Units	
Name	**(#)**	**Value($)**	**(#)**	**Value($)**
I. S. Gordon	36,549	$ 2,177,589	3,248	$ 227,457
C. K. Beebe	8,886	$ 529,428		$
J. C. Fortnum	8,600	$ 512,388		$
J. P. Zallie	7,310	$ 435,530		$
J. dos Reis	4,157	$ 247,674	4,177	$ 285,957

6,667 shares of restricted stock held by Mr. dos Reis at the time of his retirement on December 31, 2013 were forfeited because they had not vested. 4,177 restricted stock units held at that date vested under the prorata vesting provisions of the restricted stock units, and his remaining 2,223 restricted stock units held at that time were forfeited.

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Pension Benefits in Fiscal 2013

The following table states the actuarial present value of each named executive officer s accumulated benefit under each of our pension plans.

Cash Balance Plan. Our Cash Balance Plan is a defined benefit qualified pension plan which is available to all U.S. salaried employees. Accounts of participants in the Cash Balance Plan accrue pay credits based on years of service and monthly interest credits using a rate equal to a specified amount above the interest rate on short-term U.S. Treasury notes. Pay credits are calculated as a percentage (3% to 10%) of a salaried employee s eligible compensation (defined as base salary, overtime and earned Annual Incentive Plan award). The pay credit percentage is determined by the employee s years of service and reaches and remains at 10% after 35 years of service. The value of a participant s account at retirement is paid out either as a life or a joint and survivor annuity or in an optional form, such as a lump sum, if certain funding conditions are met. The Cash Balance Plan provides for a three-year vesting period.

Mr. Fortnum participated in the Ingredion Canada Pension Plan for Salaried Employees prior to his transfer from our Canadian subsidiary to the parent company on March 1, 1993. Mr. Fortnum has ceased to accrue benefits under this plan and has 7.5 years of credited service under the plan at December 31, 2013.

Mr. Zallie participated in the National Starch LLC Pension Plan during his employment with National Starch. The National Starch LLC Pension Plan was frozen effective December 31, 2010, and Mr. Zallie ceased to accrue benefits under this plan. Mr. Zallie had 27 years of credited service under the plan at December 31, 2013.

Nonqualified Cash Balance Make-up Accounts. To the extent that an employee s annual retirement income benefit under the Cash Balance Plan exceeds the limitations imposed by the Internal Revenue Code, additional benefits may be provided by our nonqualified SERP through a Cash Balance Make-up Account. Except for Mr. dos Reis, all of the named executive officers participate in Cash Balance Make-up Accounts. Ms. Beebe and Mr. Fortnum were participants in a defined benefit plan operated by the company that owned us before we became an independent public company in January 1998. The named executive officers who became officers of Ingredion when we became an independent company (Ms. Beebe and Mr. Fortnum) receive additional pay credits in Cash Balance Make-up Accounts to offset a portion of pension benefits lost as a result of our becoming an independent public company and the change from a final average pay plan maintained by our predecessor to our Cash Balance Plan.

Pension Benefits

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit(1) ($)	Payments During Last Fiscal Year ($)
I. S. Gordon	Cash Balance Plan	4	$ 43,589	$
	Nonqualified Cash Balance Make-up Account	4	$ 329,587	$
C. K. Beebe	Cash Balance Plan	33	$ 508,100	$

	Nonqualified Cash Balance Make-up Account	33	$ 996,162	$
J. C. Fortnum	Cash Balance Plan	28	$ 362,894	$
	Nonqualified Cash Balance Make-up Account	28	$ 920,572	$
	Ingredion Canada Pension Plan	7.5	$ 135,073	$
J. P. Zallie	Cash Balance Plan	30	$ 63,341	$
	Nonqualified Cash Balance Make-up Account	30	$ 176,356	$
	National Starch LLC Pension Plan	27	$ 1,224,349	$
	National Starch Excess Pension Plan	27	$ 1,840,389	$
J. dos Reis	n/a	n/a	n/a	n/a

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(1) The present value of the accumulated benefit reflects their current vested balances in the Cash Balance Plan which will be distributed upon termination, regardless of the age of the participant at termination, and balances in their Cash Balance Make-up Accounts will be distributed in accordance with individual elections. In addition, for Mr. Fortnum, the present value includes the present value of accumulated benefits in the Ingredion Canada Pension Plan. The amount shown for this account is based on the exchange rate of 1.071 Canadian Dollars per U.S. Dollar at December 31, 2013. For Mr. Zallie, the present value includes the accumulated benefits in the National Starch LLC Pension Plan and the National Starch Excess Pension Plan. See note 8 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for a discussion of the assumptions used to determine the present value of accumulated benefits under our pension plans.

Nonqualified Deferred Compensation in Fiscal 2013

The following table contains information concerning deferred compensation arrangements under our nonqualified SERP, excluding Cash Balance Make-up Accounts which are reflected in the above Pension Benefits table. Under the SERP, named executive officers can defer up to 20% of their annual compensation and up to 100% of the awards earned by them under our Annual Incentive Plan and any earned performance shares. Mr. dos Reis, who was an employee of our Argentinean subsidiary, did not participate in the SERP.

Amounts deferred are, at the election of the named executive officer, deemed to be invested at the prime rate or in phantom units of our common stock, provided that earned performance shares must be deferred into phantom units of our common stock. Deemed investment earnings are credited at the monthly compound equivalent of the prime rate, which is adjusted quarterly based upon the published prime rate, or the increase or decrease of the fair market value of the applicable number of shares of our common stock. When dividends are paid on our common stock, deemed investments in common stock are credited with the amount of the dividends which is deemed to be invested in additional phantom stock units at the fair market value of a share of common stock on the dividend payment date. Phantom stock units are paid through the issuance of shares of common stock at the time of distribution equal to the number of phantom stock units owned at that time.

Our SERP is an unfunded plan and is not ERISA-regulated or protected. SERP participants are general, unsecured creditors of the company. Our SERP is a combination of plans that mirrors plans being operated by our former parent company at the time we became an independent public company.

Nonqualified Deferred Compensation

Name	Executive Contributions in 2013(1) ($)	Company Contributions in 2013(2) ($)	Aggregate Earnings in 2013(3) ($)	Aggregate Withdrawals/ Distributions in 2013 ($)	Aggregate Balance at December 31, 2013(4) ($)
I. S. Gordon	$ 252,798	$ 149,225	$ 66,752	$	$ 2,214,043
C. K. Beebe	$	$	$ 16,488	$	$ 516,647
J. C. Fortnum	$ 49,770	$ 49,770	$ 63,530	$	$ 1,559,090

J. P. Zallie	$	102,062	$	40,825	$	12,012	$	$	439,656
J. dos Reis	$		$		$		$		

(1) Employee contributions include any deferrals of annual compensation, including earned awards under the Annual Incentive Plan and any earned performance shares. These amounts are included in the named executive officers compensation under either Salary, Bonus, Stock Awards or Non-Equity Incentive Plan Compensation in the Summary Compensation Table.

(2) These amounts relate to the company match in Savings Plan Make-up Accounts and are also included in the named executive officers compensation under All Other Compensation in the Summary Compensation Table.

(3) Deemed investment earnings are credited at the monthly compound equivalent of the prime rate, which is adjusted quarterly based upon the published prime rate, or the increase or decrease of the fair market value of the applicable number of shares of our common stock. These amounts appear in the Summary Compensation Table as Nonqualified Deferred Compensation Earnings.

(4) These balances include income from prior years which was deferred by the named executive officers and earnings on the amounts previously deferred, as well as deferred 2013 income which is included as income in the Summary Compensation Table as well as in this amount. With respect to Ms. Gordon, Ms. Beebe, Mr. Fortnum and Mr. Zallie, these amounts include $1,633,121, $516,647, $1,371,559 and $275,338, respectively, that were reported as compensation to those named executive officers in the company s Summary Compensation Table in years prior to 2013. In the case of Ms. Beebe, the balances include deferrals of income earned with our predecessor before we became an independent public company.

Potential Payments upon Termination

No Employment Agreements

None of our named executive officers has an employment agreement. Mr. dos Reis has retired and is no longer a party to any severance arrangements other than those described under the heading *Retirement of Julio dos Reis* below. The terms of our other named executive officers severance are the same as the terms for other salaried employees except in the event of a change in control. Ms. Gordon entered into a letter agreement dated as of April 2, 2009 in connection with her being hired as Chairman of the Board, President and Chief Executive Officer. Pursuant to her letter she is employed on an at will basis. The letter agreement provides that for all performance awards granted during Ms. Gordon s employment that provide for other than ratable annual vesting, the awards will be vested on a pro rata basis (based on the number of days employed during the vesting period) on the date of Ms. Gordon s retirement at any time on or after attaining age 62 and five years of service with the company, with such vested portion subject to attainment of any performance goals that may be provided under any such awards.

The letter agreement also provided for a grant of restricted stock units under the Stock Incentive Plan with a value of $3,199,000, of which $2,649,000 vested 50% on each of the first two anniversaries of the date of grant, and the remaining $550,000 vested or will vest 1/7th on each of the first seven anniversaries of the date of grant. The restricted stock units will vest in full in the event of death or disability while Ms. Gordon is employed by the company, upon involuntary termination by the company without cause or upon the occurrence of a change in control (as defined in the company s form of executive severance agreement). Upon vesting, the restricted stock units will be distributed in shares of common stock, together with all dividend equivalents accrued on those units.

In the event of Ms. Gordon s involuntary termination by the company without cause, the letter agreement provides for a severance payment equal to the sum of her annual base salary plus target annual incentive in effect on the termination date and a pro rata portion of the annual incentive for the year in which the termination occurs based upon actual performance, paid when the annual incentive is paid to other senior executives of the company. The letter agreement contains post-termination restrictions on Ms. Gordon including a two-year non-solicitation of employees covenant and a one-year non-competition covenant.

Potential Payments upon Termination or Change in Control

For terminations other than those relating to a change in control, the named executive officers are not entitled to receive any additional benefits that are not otherwise available to other salaried employees. These benefits which are also available to other salaried employees may include distributions under the Cash Balance Plan, Retirement Savings Plan, retiree medical benefits, disability benefits, accrued vacation pay and death severance benefits. However, termination of senior executive officers may result in severance payments in addition to the payments to which the

executive is otherwise entitled in exchange for confidentiality, non-compete, non-solicitation or other agreements. Persons who retire after age 55 with at least ten years of service (after age 62 with at least five years of service in the case of Ms. Gordon), die or become disabled after the first year of a three-year cycle with respect to performance shares issued under our Stock Incentive Plan will receive a

prorated award for each such cycle payable after the end of the cycle when other participants receive their payments. If Mr. Fortnum is terminated for any reason, he will be entitled to the continuation of payments equal to the premiums on his executive life insurance policy for his benefit and payments of amounts equal to taxes due as a result of such payments until the later of age 65 or the 15th year of the applicable insurance policy. (Ms. Beebe would have been entitled to payments with respect to the same items if she had been terminated on December 31, 2013.) The amounts of such payments assuming termination as of December 31, 2013 are included in the table under the heading Estimated Potential Payments upon Change in Control on page 52. In cases of prior retirements by persons who were executive officers, the Compensation Committee has exercised its discretion to accelerate the vesting of stock options and restricted stock units.

Retirement of Julio dos Reis

Mr. dos Reis served as our Senior Vice President and President, South America Ingredient Solutions through December 31, 2013. The company and Mr. dos Reis have entered into a Consulting Agreement under which Mr. dos Reis agreed, among other things, to provide consulting services to the extent requested by the company during the period beginning on January 1, 2014 and ending on December 31, 2016 (the Consulting Period). Mr. dos Reis agreed that during the Consulting Period and for a period of one year thereafter, he will not compete with the company and that during the Consulting Period he will not solicit or recruit employees of the company, subject to specified limitations. Mr. dos Reis also agreed to maintain the confidentiality of the company s confidential information after his termination. Under this agreement Mr. dos Reis will receive a fee of $923,300, payable in a lump sum of $461,650, followed by 24 monthly installments of $19,235.42 each. The company s subsidiary, Ingredion Argentina, S.A. (Ingredion Argentina) also entered into a Mutual Separation Agreement with Mr. dos Reis under which Mr. dos Reis and Ingredion Argentina agreed to terminate his employment with Ingredion Argentina effective December 31, 2013. Under this Agreement Mr. dos Reis was paid a special termination bonus of $923,300, payable in a lump sum. Mr. dos Reis also agreed to maintain the confidentiality of Ingredion Argentina s confidential information after his termination. Ingredion Argentina will also pay Mr. dos Reis all the accruals arising from this termination by mutual agreement, including the accrued salary of the month of termination, the accrued 13th-month mandatory salary and accrued unused vacation. Ingredion Argentina also agreed to continue Mr. dos Reis medical insurance coverage for himself and his currently covered dependents pursuant to the medical insurance plans in effect at Ingredion Argentina, until such time as Mr. dos Reis reaches the age of 65.

Executive Severance Agreements

We have a severance agreement with each of the named executive officers that requires us to make certain payments and provide certain benefits if the officer s employment is terminated by us other than because of death, Disability or Cause or is terminated by the officer for Good Reason within two years after a change in control of the company.

Under the severance agreements a change in control results from any of the following:

- the acquisition by an individual, entity or group of persons of beneficial ownership of 20% or more of our common stock other than pursuant to most transactions in which we directly issue or purchase shares of our common stock,

- a majority of our directors at the start of a two-year period, and persons whose nominations are approved by those directors, or directors approved by those directors not constituting a majority of our board at the end of

the two-year period,

a merger or sale of substantially all of our assets except where owners of our shares own a majority of the voting shares of the surviving corporation or purchaser of the assets, and no person other than us or our benefits plans who owned 15% of our stock before the transaction owns 25% or more of the stock of the survivor or purchaser and the directors who must be a majority under the preceding provision are a majority of the directors of the surviving corporation or purchaser or

the consummation of a plan of our complete liquidation or dissolution.

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For the purposes of the severance agreements:

We have Cause to terminate the named executive officer if the named executive officer (a) has willfully engaged in conduct which involves dishonesty or moral turpitude which either (1) results in substantial personal enrichment of the named executive officer at our expense or (2) is demonstrably and materially injurious to our financial condition or reputation, (b) has willfully violated the provisions of the confidentiality or non-competition agreement entered into between the company or any of its subsidiaries and the named executive officer or (c) has committed a felony.

The named executive officer is said to have Good Reason to terminate his or her employment (and thereby become entitled to the benefits described below) if we reduce the named executive officer s base salary, require the named executive officer to relocate more than 35 miles from his or her office location immediately prior to the change in control, reduce in any manner which the officer reasonably considers important the named executive officer s title, job authorities or responsibilities immediately prior to the change in control or take certain other actions as specified in the definition.

Each severance agreement requires, as a precondition to the receipt of payments, that the named executive officer sign a standard form of release in which he or she waives all claims that he or she might have against us and certain associated individuals and entities. These agreements also include a prohibition of soliciting or recruiting any of our employees or consultants that would apply for one year following the named executive officer s termination of employment (two years in the case of Ms. Gordon) and confidentiality provisions that would apply for an unlimited period of time following the named executive officer s termination of employment. Mr. Zallie s agreement includes a three-year non-competition agreement in the event his employment is terminated within two years after a change in control or a one-year non-competition agreement if his employment is terminated other than within two years after a change in control.

The agreements provide for the payment of salary and vacation pay accrued through the termination date plus amounts under the Annual Incentive Plan based on the assumption that the target award level was achieved, prorated for the relevant year or portion thereof. In addition, the terminated officer would receive, as a severance payment, a lump sum amount equal to three times the sum of his or her (a) highest base salary in effect during any consecutive 12-month period within the 36 months immediately preceding the date of termination and (b) his or her target Annual Incentive Plan payment for the year in which the termination occurs. We provide this level of severance because we believe it to be typical and necessary to provide a competitive benefit.

The agreements provide for certain continued insurance and other benefits for a period of 36 months (if the named executive officer is at least 62 years old, our Compensation Committee has the discretion to provide such continued insurance and other benefits only until the executive officer attains age 65) and certain allowances for a period of three months, which include, based on current allowances, continued use of a leased automobile for three months. These agreements also provide for accelerated vesting pursuant to our Stock Incentive Plan of the terminated officer s then unvested restricted stock and restricted stock unit awards and other stock-based awards, including, but not limited to, performance share awards under our long-term incentive compensation program on a change in control.

These agreements also provide for the terminated officer to receive three additional years of service under our Cash Balance Plan based on the officer s target total cash compensation (if the executive is at least 62 years old he or she will receive a pro rata amount of additional service credits based on the number of full months until the executive reaches age 65) and three years of benefits under his or her nonqualified Cash Balance Make-up Account. These

agreements also provide for vesting of the officer s accounts under the Cash Balance Plan and nonqualified Cash Balance Make-up Accounts, if they are not already vested.

The officer will receive cash payments or nonqualified plan credits equal to three years of employee matching contributions in addition to the contributions made to the Retirement Savings Plan and Savings Plan Make-up Accounts. These agreements also provide for vesting of the officer s accounts under the Retirement Savings Plan and Savings Plan Make-up Accounts, if they are not already vested.

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The officer will receive the cash value of his or her current RHCSA and related dependent account, plus the value of three additional years of company contributions to that account. These agreements also provide for vesting of the officer s current RHCSA and related dependent account, if they are not already vested.

We will provide a terminated officer with executive-level outplacement services for a period of one year from the date of his or her termination of employment. Such outplacement services are required to be provided through an outplacement firm that is mutually agreed upon by the parties.

We will reimburse any excise tax paid by the terminated officer as a result of payments under his or her severance agreement unless a less than 10% reduction in the payments would make the excise tax inapplicable, in which case the payments will be reduced by the least amount that would make the excise tax inapplicable. If we are barred from providing any of the benefits contemplated by the severance agreements, we are obligated to arrange to provide substantially similar benefits or the after-tax cash equivalent. These provisions providing for reimbursement of excise taxes have not been included in severance agreements entered into after June 2009.

To the extent the payments may not be paid from a qualified plan, such amounts will be paid from our general assets.

Mr. Zallie s agreement provides for a severance payment of one times his base salary in effect on the date of his termination of employment in the event of termination of his employment other than within two years after a change in control of the company.

Change in Control Provisions of the Stock Incentive Plan

The Stock Incentive Plan provides that upon a change in control, all outstanding awards made under it will be surrendered to the company in exchange for a cash payment except, in the case of a merger or similar transaction in which the shareholders receive publicly traded common stock, all outstanding options and stock appreciation rights immediately will become exercisable in full, all other awards immediately will vest, all performance periods will lapse, each performance period will be deemed satisfied at the target level and each option, stock appreciation right and other award will represent a right to acquire the appropriate number of shares of common stock received in the merger or similar transaction. These provisions are intended to permit our senior executives to focus on our success in the event of a change in control and to encourage them to remain in our employ in the event of a possible change in control. These provisions are similar to terms of other companies stock incentive plans and are included in part because we believe we need to do so to provide a competitive compensation package.

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Estimated Potential Payments upon Change in Control

The estimated amounts payable to each named executive officer other than Mr. dos Reis, who retired on December 31, 2013, upon a change in control and termination of the named executive officer s employment for reasons other than for death, Disability or Cause, by us or our successor or by the named executive officer for Good Reason within two years after a change in control in accordance with the terms of the severance agreements discussed above, are shown in the table below. The amounts assume such termination was effective as of December 31, 2013 and are estimates of the amounts that would be paid to the executives upon their termination. Due to a number of factors that affect the nature and amount of any benefits, actual amounts paid or distributed to the named executive officers may be different from the amounts in the table. Factors that could affect these amounts include the timing during the year of any such event, the company s stock price and the executive s age.

	I. S. Gordon	C. K. Beebe	J. C. Fortnum	J. P. Zallie
Cash Severance	$ 7,335,900	$ 3,144,960	$ 2,878,200	$ 2,667,600
Pro rata Bonus Payment(1)	$ 1,358,500	$ 465,920	$ 426,400	$ 395,200
Early Vesting of Stock Options(2)(3)	$ 1,473,105	$ 327,821	$ 302,664	$ 293,266
Early Vesting of Restricted Stock and Restricted Stock Units(2)(4)	$ 5,373,083	$ 904,699	$ 846,713	$ 714,106
Early Vesting of Performance Shares(2)(5)	$ 5,689,046	$ 1,258,020	$ 1,153,185	$ 985,449
Retirement Benefit Payment(6)(7)	$ 294,774	$ 377,962	$ 334,352	$ 245,547
Defined Contribution Plan Payments(8)	$ 518,943	$ 45,900	$ 196,557	$ 179,805
Health and Welfare Benefit Values	$ 42,843	$ 38,701	$ 57,309	$ 41,864
Post-Retirement Medical Coverage(9)	$ 12,296	$ 4,356	$ 4,356	$
Outplacement Services	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Personal Allowances	$ 4,984	$ 3,984	$ 4,063	$ 4,254
Executive Life Insurance(10)	$	$ 34,941	$ 88,016	$
Net Value Realized	***$ 22,128,474***	***$ 6,632,264***	***$ 6,316,815***	***$ 5,552,091***
Excise Tax and Gross-Up	$	$	$	$
Forfeiture Required by Modified Gross-Up Provision(11)	($ 615,891)	$	$	$
Total Value Realized	**$ 21,512,583**	**$ 6,632,264**	**$ 6,316,815**	**$ 5,552,091**

(1) Target award is shown because a guaranteed target payment is triggered by a change in control under severance agreements.

(2) Upon a change in control, all outstanding options will become fully exercisable, all restrictions imposed on outstanding shares of restricted stock and restricted stock units will immediately lapse and all outstanding performance shares will immediately vest.

(3) Based on the closing price of a share of our common stock on December 31, 2013 ($68.46) minus the applicable exercise price.

(4) The number of shares of restricted stock or restricted stock units multiplied by $68.46 (the closing price of a share of our common stock on December 31, 2013).

(5) Reflects the target number of performance shares for 2011 through 2013, 2012 through 2014 and 2013 through 2015 performance periods multiplied by $69.89 (the highest price of a share of our common stock during the 90-day period immediately preceding the date of the assumed change in control, December 31, 2013).

(6) For Ms. Beebe and Mr. Fortnum, reflects the full payment that they would receive, which is equal to the sum of the payment due to their eligibility for retirement plus the additional incremental payment due to the change in control.

(7) Reflects only the additional amounts earned under the Cash Balance Plan and nonqualified Cash Balance Make-up Accounts due to a change in control (the value of three extra years of service credits) as well as the continuation of vesting over the severance period.

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(8) Reflects additional employer contributions to the defined contribution plans based on three times the sum of the employer matching contributions made to the executive s accounts under the qualified and nonqualified plans for the most recent plan year that ended before the date of the change in control, or if higher, for the most recent plan year that ended after the date of the change in control (calculated on an annualized basis) as well as the continuation of vesting over the severance period.

(9) Executive officers are vested in their RHCSA accounts at age 55 with ten years of service. Upon a change in control, each named executive officer would receive three additional years of service credits and company contributions and become vested in their RHCSA accounts, if not already vested. Ms. Beebe and Mr. Fortnum are currently vested in their accounts; the amounts shown for them reflect the additional three years of credits they would receive upon a change in control. Ms. Gordon will vest in her accounts as a result of a change in control and will also receive the additional three years of credits; the amounts shown reflect the full account balance as of December 31, 2013 and the additional three years of credit. Mr. Zallie is not eligible for a RHCSA; he is grandfathered in the National Starch LLC Postretirement Welfare Plan, and there are no enhancements to this plan upon a change in control.

(10) Both Ms. Beebe and Mr. Fortnum are over 55 years of age; therefore, any termination (regardless if it is related to a change in control) would result in continued participation in the Executive Life Insurance Plan. The amounts shown reflect the estimated sum of the continued payments these executives would receive to assist in the payment of premiums on life insurance policies for their benefit and to assist in the payment of taxes due as a result of such payments.

(11) Forfeiture required by the 110% modified gross-up payment provision in the severance agreements which requires the executive to forfeit the minimum amount necessary to avoid triggering an excise tax liability if his or her aggregate parachute payments do not exceed his or her safe harbor limit by 10% or more.

Risk Arising from Compensation Policies and Practices

We believe that risk associated with our incentive plans is low. All eligible employees participate in short-term incentive and long-term incentive plans with substantially similar terms. The metrics and goals for those plans are developed by management and are reviewed and approved by the Board of Directors. Management s opinion is that our compensation policies and practices do not promote inappropriate risk taking and therefore, any risks arising from such policies and practices are not reasonably likely to have a material adverse effect on the company.

Compensation Committee Report

The Compensation Committee of the Board of Directors reports that it has reviewed and discussed with management the section of this proxy statement headed Compensation Discussion and Analysis, and, on the basis of that review and discussion, recommended that that section be included in our Annual Report on Form 10-K and in this proxy statement.

Compensation Committee

P. Hanrahan, Chairman

D. B. Fischer

R. L. Jordan

D. A. Wilson

Compensation Committee Interlocks and Insider Participation

None of the Compensation Committee members:

- has ever been an officer or employee of the company,
- is or was a participant in a related person transaction in 2013 (See Review and Approval of Transactions with Related Persons for a description of our policy on related person transactions.) or
- is an executive officer of another entity, at which one of our executive officers serves on the board of directors.

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Proposal 2. Advisory Vote on Compensation of Our Named Executive Officers

We seek your advisory vote on our executive compensation programs as required by Section 14A(a)(2) of the Exchange Act. The Board of Directors has determined to seek such a vote annually until the next required stockholder vote on the frequency of stockholder votes on executive compensation.

We ask that you support the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis, the accompanying compensation tables and the related narrative disclosure in this proxy statement. Because your vote is advisory, it will not be binding on the board or the company. However, the board and the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation.

We have a long-standing tradition of delivering performance results for our stockholders, customers and the communities in which we operate. Our executive compensation programs have played a material role in our ability to achieve strong financial results and attract and retain a highly experienced, successful team to manage the company.

Our executive team has successfully managed the company through the recent challenging economic conditions. We are poised to continue our long-standing tradition of excellence and delivering performance results for our stockholders, our customers and the communities in which we operate and to provide a diverse and engaged workforce.

We believe that our executive compensation programs are structured to effectively support our company and our business objectives in a manner that comports with market practices.

- Our compensation programs are substantially tied into our key business objectives and the success of our stockholders. If the value we deliver to our stockholders declines, so does the compensation we deliver to our executives.

- We maintain the highest level of corporate governance over our executive pay programs.

- We closely monitor our compensation programs and the pay levels of executives of companies of similar size and complexity so that we may ensure that our compensation programs are within the norm of a range of market practices.

In 2014, we adopted a clawback policy and a policy prohibiting the hedging and pledging of company stock by our executive officers and directors.

The Board of Directors recommends that you vote FOR the following proposal:

RESOLVED: that the stockholders approve, on an advisory basis, the compensation of the company s named executive officers as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the accompanying compensation tables and the related narrative disclosures in the proxy statement for the company s 2014 annual meeting of stockholders.

Proposal 3. Amendment and Reapproval of the Ingredion Incorporated Stock Incentive Plan

Summary of the Proposal

The company has maintained the Ingredion Incorporated Stock Incentive Plan since the company initially became an independent company. Under this plan, the company may grant a variety of different stock-based awards including nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, bonus stock and performance shares. We refer to the Ingredion Incorporated Stock Incentive Plan, as amended and in effect prior to the 2014 annual meeting, as the Existing Plan. The Existing Plan was originally approved by stockholders in 1998 and subsequently approved in 2005 and 2010 when the

Existing Plan was amended. On March 19 and March 31, 2014, the Board of Directors, based on the recommendation of the Compensation Committee of the board (for purposes of this Proposal 3, the Committee), authorized the adoption, subject to stockholder approval, of amendments to the Existing Plan. We use the term the Plan to refer to the Existing Plan after amending it to give effect to the proposed amendments. We are asking you to reapprove the Plan, which includes amendments to the Existing Plan to increase by 4,300,000 the number of shares authorized for issuance under the Plan, to clarify that, in accordance with the company s practice, shares that are used to pay the exercise price of a nonqualified stock option or an incentive stock option will not be reissued under the Plan whether tendered by a participant in the Plan or withheld by the company, and to extend the termination date of the Plan from May 1, 2020 to May 1, 2024.

The following table provides the number of shares subject to outstanding awards and the number of shares available for future grants under the Existing Plan as of March 3, 2014.

Number of Stock Options Outstanding	3,509,877
Weighted Average Exercise Price	$ 44.63
Weighted Average Remaining Term (in years)	6.5
Number of Full-Value Awards Outstanding *(restricted shares, restricted stock units, performance shares and phantom stock units)*	805,064
Number of Shares Remaining Available for Future Grant	1,691,429
Common Shares Outstanding (as of March 24, 2014)	74,514,968

If the proposal to amend the Existing Plan is approved, the total number of shares of common stock available for new awards will be increased by 4,300,000 shares to a total of 5,991,429 shares based on the number of shares available under the Plan as of March 3, 2014 (subject to adjustment in the event of a stock split, stock dividend, recapitalization, merger, spin-off or other similar change or event involving the company).

The board and the Committee believe that the amendment to the Existing Plan to increase the number of shares available for issuance under the Plan would be in the best interests of the company.

Description of the Plan and Performance Goals

Purpose of the Plan. The purpose of the Plan is to promote the long-term financial success of the company by (i) attracting and retaining executive personnel of outstanding ability; (ii) strengthening the company s capability to develop, maintain and direct a competent management team; (iii) motivating executive personnel by means of performance-related incentives to achieve longer-range performance goals; (iv) providing incentive compensation opportunities which are competitive with those of other major corporations; (v) enabling such executive personnel to participate in the long-term growth and financial success of the company through increased stock ownership and (vi) serving as a mechanism to compensate outside directors.

The Plan has been designed to meet the requirements of Section 162(m) of the Internal Revenue Code regarding deductibility of executive compensation. Section 162(m) generally limits to $1 million the amount that a publicly held corporation is allowed to deduct each year for the compensation paid to each of its named executive officers. However, qualified performance-based compensation is not subject to the $1 million deduction limit. To qualify as qualified performance-based compensation, certain criteria must be satisfied and the material terms under which the compensation is to be paid, including the performance goals, must be disclosed to, and approved by a separate majority vote of, stockholders before the compensation is paid. If approved by the company s stockholders, the Plan will enable the Committee to continue to grant awards under the Plan that will be exempt from the deduction limits of

Section 162(m) of the Internal Revenue Code.

The material features of the Plan are summarized below. The following summary of the Plan is qualified in its entirety by reference to the full text of the Plan, which is included as Appendix B to this Proxy Statement.

Administration. The Committee is responsible for administration of the Plan. The Plan provides that the Committee will consist of two or more members of the board, each of whom shall be (i) a Non-Employee Director within the meaning of Rule 16b-3 under the Exchange Act, (ii) an outside director within the meaning of Section 162(m) of the Internal Revenue Code and (iii) an Independent Director within the meaning

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of the rules of the NYSE. Subject to the express provisions of the Plan, the Committee has the authority to select eligible directors, officers and other key management employees of the company and its subsidiaries for participation in the Plan and determine all of the terms and conditions of each grant and award.

Eligibility and Participation. All non-employee directors of the company and all salaried employees of the company and its affiliates are eligible to receive awards under the Plan at the discretion of the Committee. The company currently has 11 non-employee directors, and the company and its affiliates currently have approximately 4,150 employees eligible to participate in the Plan. Generally, awards have been limited to the company s non-employee directors, its executive officers and approximately 275 other management employees, plus special awards on an annual basis to fewer than 50 other employees. The benefits or amounts that will be received by any of the participants are indeterminable at this time. Each grant and award will be evidenced by a written agreement containing such provisions not inconsistent with the Plan as the Committee shall approve. The Committee also has the authority to establish rules and regulations for administration of the Plan and to decide questions of interpretation of any provisions of the Plan. All such rules, regulations, interpretations and conditions will be conclusive and binding on all parties. In addition and subject to compliance with Section 157 of the Delaware General Corporation Law, the Committee may authorize one or more executive officers of the company to make certain awards under the Plan to employees who are not directors or executive officers.

Available Shares. As of March 3, 2014, there were 4,314,941 shares of common stock subject to outstanding awards issued under the Existing Plan, including 3,509,877 nonqualified stock options and 805,064 shares subject to full-value awards (restricted stock, restricted stock units and performance shares) and 1,691,429 shares available for new awards. If the proposal to amend the Existing Plan is approved, the total number of shares of common stock available for new awards will be increased by 4,300,000 to a total of 5,991,429 shares based on the number of shares available under the Plan as of March 3, 2014 (subject to adjustment in the event of a stock split, stock dividend, recapitalization, merger, spin-off or other similar change or event involving the company). On March 3, 2014, the closing price of a share of the common stock on the NYSE was $64.91. Under the Existing Plan, we reduced the number of shares available for future awards by one share for each share that is subject to a stock option or stock appreciation right under the Plan and each other award granted prior to May 18, 2005, by 2.5 for all other awards granted after May 18, 2005 and prior to May 19, 2010 and by 2.0 for all other awards granted after May 18, 2010 and prior to May 21, 2014. Under the Plan we will continue to reduce the number of shares available for future awards by one share for each share that is subject to a stock option or stock appreciation right granted under the Plan on or after May 21, 2014, and for all other awards granted on or after May 21, 2014, we will continue to reduce the number of shares available for future awards by 2.0. For example, if we issue 100 restricted stock units or shares of restricted stock on or after May 21, 2014, we will reduce the number of shares available for new awards by 200, and if we grant someone 100 stock options or stock appreciation rights to be settled in stock, we will reduce the number of shares available by 100. We will not reduce the number of shares available if an award can only be settled in cash or to the extent that an award that can be settled in either stock or cash is settled in cash.

If an award expires, terminates, is canceled or forfeited, the shares subject to that award will be available for future awards to the extent the number of shares available under the Plan was reduced when such award was granted. Shares of common stock subject to an award under the Plan may not be made available for issuance under the Plan if such shares are: (i) shares that were subject to a stock-settled stock appreciation right and were not issued as a result of the net settlement or net exercise of such stock appreciation right, (ii) shares tendered by the participant or withheld by the company to pay the exercise price of an incentive stock option or non-statutory stock option, (iii) shares delivered to or withheld by the company to pay withholding taxes related to an award under the Plan or (iv) shares repurchased on the open market with the proceeds of an option exercise.

Shares of common stock issued in accordance with the Plan will be made available from authorized and unissued shares of common stock, or authorized and issued shares of common stock reacquired and held as treasury shares or otherwise, or a combination thereof.

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To the extent required by Section 162(m) of the Internal Revenue Code and the rules and regulations thereunder, the maximum number of shares of common stock with respect to which options, stock awards or performance share awards, or a combination thereof may be granted during any calendar year to any person will be 500,000, subject to adjustment as provided in the Plan.

Awards under the Plan are to be evidenced by written agreements containing the terms and conditions of the awards. Award agreements are subject to amendment, including unilateral amendment by the company (with the approval of the Committee) unless the amendments adversely affect the participant.

Change in Control. In the event of certain acquisitions of 20% or more of the common stock, a change in a majority of the board, a reorganization, merger or consolidation or sale or disposition of all or substantially all of the assets of the company (unless, among other conditions, the company s stockholders receive 50% or more of the stock of the surviving company) or a liquidation or dissolution of the company, all outstanding awards will be surrendered to the company in exchange for a cash payment except, in the case of a merger or similar transaction in which the stockholders receive publicly traded common stock, all outstanding options and stock appreciation rights immediately will become exercisable in full, all other awards immediately will vest, all performance periods will lapse, each performance period will be deemed satisfied at the target level and each option, stock appreciation right and other award will represent a right to acquire the appropriate number and class of shares received in the merger or similar transaction.

Effective Date, Termination and Amendment. The Existing Plan became effective as of January 1, 1998 and will terminate on May 1, 2024, unless terminated earlier by the board. The board may amend the Plan at any time, subject to any requirement of stockholder approval required by applicable law, rule or regulation and provided that no amendment may be made without stockholder approval if such amendment would (i) increase the maximum number of shares of common stock available under the Plan, (ii) effect any change inconsistent with Section 422 of the Internal Revenue Code, (iii) extend the term of the Plan or (iv) reduce the minimum purchase price or base price of a share of common stock subject to an option or stock appreciation right.

No Repricing. Without limiting its ability to make adjustments in connection with stock splits and similar changes in the company s capital structure as described below, the company may not, without stockholder approval, amend or replace any previously granted option or stock appreciation right in a transaction that constitutes a repricing under the rules of the NYSE. In particular, the company will not cancel an option or stock appreciation right that has an exercise price which is greater than the fair market value of the underlying common stock in exchange for stock, cash or other consideration and will not cancel an option or stock appreciation right that has an exercise price which is greater than the fair market value of the underlying common stock and regrant such option or stock appreciation right with a lower exercise price or base price.

Minimum Vesting for Full-Value Awards. Awards of restricted stock, restricted stock units and performance shares which vest on the basis of the recipient s continued employment with or provision of services to the company may not provide for vesting that is any more rapid than annual pro rata vesting over a three-year period, and any restricted stock, restricted stock units and performance shares which vest on the attainment of performance goals must provide for a performance period of at least 12 months; provided that vesting may be shortened in the case of disability, death, retirement, or a change in control and provided further that up to 5% of the shares available for new awards are not subject to these limitations.

Stock Options and Stock Appreciation Rights General. The Committee may grant to eligible participants options to purchase shares of common stock which are either nonqualified stock options or incentive stock options within the meaning of Section 422 of the Internal Revenue Code. The Committee also may grant stock appreciation rights either

independently of, or in tandem with, stock options. The exercise of a stock appreciation right entitles the holder to receive shares of common stock (which may be restricted stock), cash or a combination thereof with a value equal to the difference between the fair market value of the common stock on the exercise date and the base price of the stock appreciation right.

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The Committee will determine the terms of each option and stock appreciation right, including the number and exercise price or base price of the shares subject to the option or stock appreciation right, the term of the option or stock appreciation right and the conditions to the exercisability of the option or stock appreciation right. Upon exercise of an option, the purchase price must be paid (i) in cash, (ii) by delivery of certain previously acquired shares of common stock, (iii) by delivery of cash in an amount of the aggregate purchase price payable by reason of the exercise by a broker-dealer acceptable to the company to whom the optionee has submitted an irrevocable notice of exercise, (iv) by authorizing the company to withhold whole shares of common stock which would otherwise be delivered having an aggregate fair market value, determined as of the date of exercise, equal to the aggregate purchase price payable by reason of such exercise or (v) by a combination of cash, delivery of certain previously acquired shares of common stock and authorizing the company to withhold whole shares of common stock.

Shares of common stock to be delivered or withheld for taxes may not have an aggregate Fair Market Value (as defined in the Plan), determined as of the date of delivery or withholding, in excess of the amount determined by applying the minimum statutory withholding rates.

Nonqualified Stock Options and Stock Appreciation Rights. The exercise price of a nonqualified stock option and the base price of a stock appreciation right will not be less than 100% of the fair market value of the common stock on the date of grant, provided that the base price of a stock appreciation right granted in tandem with an option will be the exercise price of the related option.

No nonqualified stock option will be exercisable more than ten years after its date of grant. Unless otherwise provided in the applicable award agreement, the period for the exercise of a nonqualified stock option or stock appreciation right following termination of employment will be as described herein. In the event of termination of employment (1) by reason of (i) death, or (ii) retirement on or after (a) age 65, (b) age 55 (with a minimum of ten years of employment with or service to the company) or (c) age 62 (with a minimum of five years of employment with or service to the company), or (iii) permanent disability or (2) for any reason within two years following a Change in Control (as defined in the Plan), each nonqualified stock option and stock appreciation right will be exercisable for the remainder of the option period or stock appreciation right period as stated under the terms of the award agreement, but only to the extent that the option or stock appreciation right was exercisable at the date of such termination of employment. In the event of termination of employment for any other reason, each nonqualified stock option and stock appreciation right will remain exercisable, to the extent that the option or stock appreciation right was exercisable at the date of the termination of employment, for a period of 90 days after the termination of employment, but in no event after the expiration of the option or stock appreciation right. If an employee is terminated for Cause (as such term is defined in the Plan), his or her rights under all options and stock appreciation rights will terminate on the date of the termination.

Incentive Stock Options. The exercise price of an incentive stock option will not be less than the fair market value of the common stock on the date of grant of such option, unless the recipient of the incentive stock option owns greater than ten percent of the voting power of all shares of capital stock of the company (a ten percent holder), in which case the option exercise price will be the price required by the Internal Revenue Code, currently 110% of fair market value.

No incentive stock option will be exercisable more than ten years after its date of grant, unless the recipient of the incentive stock option is a ten percent holder, in which case the option will be exercisable for no more than five years after its date of grant. Subject to the limit on the total number of shares that may be subject to awards under the Plan, the maximum number of shares of common stock that may be issued on or after May 21, 2014 in the form of incentive stock options granted under the Plan is 5,991,429 shares based on the number of shares available under the Plan as of March 3, 2014.

Unless otherwise provided in the applicable award agreement, the period for the exercise of an incentive stock option following termination of employment will be as described herein. In the event of termination of employment by reason of permanent and total disability (as defined in Section 22(e)(3) of the Internal Revenue

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Code), incentive stock options will be exercisable only to the extent the options were exercisable on the effective date of the optionee s termination of employment for a period of no more than one year after the termination (or such shorter period as determined by the Committee), but in no event after the expiration of the incentive stock option. In the event of termination of employment by reason of death, incentive stock options will be exercisable only to the extent the options were exercisable on the effective date of the termination for a period of three years after the date of death, but in no event after the expiration of the incentive stock option. In the event an employee is terminated for Cause (as defined in the Plan), any incentive stock options held by such individual will terminate on the date of the termination of employment. In the event of termination of employment for any other reason, incentive stock options will be exercisable to the extent exercisable on the date of termination for a period of 90 days after the termination, but in no event after the expiration of the incentive stock option. If the holder of an incentive stock option dies during the specified periods following termination of employment by reason of permanent and total disability or for any other reason (except termination of employment which is for Cause), each incentive stock option will be exercisable only to the extent the option was exercisable on the date of the holder s death, and may thereafter be exercised for a period of no more than three years but in no event after expiration of the incentive stock option.

Bonus Stock Awards, Restricted Stock Awards and Restricted Stock Unit Awards. The Plan provides for the grant of (i) bonus stock awards, which are vested upon grant, (ii) restricted stock awards and (iii) restricted stock unit awards. An award of restricted stock or of a restricted stock unit may be subject to specified performance measures for the applicable restriction period. Shares of restricted stock and restricted stock units will be non-transferable. Shares of restricted stock and restricted stock units other than those issued as payment of all or a portion of non-employee directors retainers will be subject to forfeiture if the holder does not remain continuously in the employment of the company during the restriction period and, if the restricted stock or restricted stock unit is subject to performance measures, if the performance measures are not attained during the restriction period. However, unless otherwise set forth in the award agreement, termination of employment (1) by reason of (i) death, or (ii) retirement on or after (a) age 65, (b) age 55 (with a minimum of ten years of employment with or service to the company) or (c) age 62 (with a minimum of five years of employment with or service to the company) or (iii) permanent disability, (2) for any reason within two years following a Change in Control or (3) under certain other circumstances as the Committee deems appropriate, will result in the restricted stock or restricted stock units becoming vested in such amount as the Committee determines to be appropriate. Unless otherwise set forth in the award agreement, in the event of termination of employment for any other reason, the portion of a restricted stock award or restricted stock unit award which is then subject to a restriction period will be forfeited and canceled by the company. Unless otherwise set forth in the award agreement, the holder of a restricted stock award will have all of the rights as a stockholder of the company, including the right to vote and receive dividends with respect to the shares of common stock subject to 1 (Leverage) $49,433 12.03% $16,439 4.00% $20,549 5.00%

Common Equity Tier 1

$49,433 19.32% $18,494 4.50% $16,634 6.50%

Tier 1

$49,433 19.32% $24,659 6.00% $20,472 8.00%

Total Capital

$52,417 20.48% $32,879 8.00% $25,590 10.00%

December 31, 2017:

Tier 1 (Leverage)	$47,838	11.39%	$16,798	4.00%	$20,997	5.00%
Common Equity Tier 1	$47,838	18.63%	$11,557	4.50%	$16,693	6.50%
Tier 1	$47,838	18.63%	$15,409	6.00%	$20,545	8.00%
Total Capital	$51,059	19.88%	$20,545	8.00%	$25,681	10.00%

Deposit Insurance

The FDIC is an independent federal agency that insures deposits of federally insured banks, including federal savings banks, up to prescribed statutory limits for each depositor. Pursuant to the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased to $250,000 per depositor, per ownership category.

The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to the FDIC's Deposit Insurance Fund ("DIF"). The Bank's DIF assessment is calculated by multiplying its assessment rate by the assessment base, which is defined as the average consolidated total assets less the average tangible equity of the Bank. The initial base assessment rate is based on an institution's capital level, and capital adequacy, asset quality, management, earnings, liquidity and sensitivity ("CAMELS") ratings, certain financial measures to assess an institution's ability to withstand asset related stress and funding related stress, and in some cases, additional discretionary adjustments by the FDIC to reflect additional risk factors.

The FDIC's overall premium rate structure is subject to change from time to time to reflect its actual and anticipated loss experience. The financial crisis that began in 2008 resulted in substantially higher levels of bank failures than had occurred in the immediately preceding years. These failures dramatically increased the resolution costs of the FDIC and substantially reduced the available amount of the DIF.

As required by the Dodd-Frank Act, the FDIC adopted a new DIF restoration plan which became effective on January 1, 2011. Among other things, the plan increased the minimum designated DIF reserve ratio from 1.15% to 1.35% of insured deposits, which must be reached by September 30, 2020, and provides that in setting the

assessments necessary to meet the new requirement, the FDIC is required to offset the effect of this provision on insured depository institutions with total consolidated assets of less than $10 billion, so that more of the cost of raising the reserve ratio will be borne by institutions with more than $10 billion in assets. With the increase of the DIF reserve ratio to 1.17% on June 30, 2016, the range of initial assessment rates has declined for all banks from five to 35 basis points on an annualized basis to three to 30 basis points on an annualized basis. In order to reach a DIF reserve ratio of 1.35%, insured depository institutions with $10 billion or more in total assets are required to pay a quarterly surcharge equal to an annual rate of 4.5 basis points, in addition to regular assessments. In the event that the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall on large banks in the first quarter of 2019. The FDIC will provide assessment credits to insured depository institutions, like Broadway Federal, with total consolidated assets of less than $10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors.

Guidance on Commercial Real Estate Lending

In December 2015, the federal banking agencies released a statement titled "Statement on Prudent Risk Management for Commercial Real Estate Lending" (the "CRE Statement"). The CRE Statement expresses the banking agencies' concerns with banking institutions that ease their commercial real estate underwriting standards, directs financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicates that the agencies will continue to pay special attention to commercial real estate lending activities and concentrations going forward. The banking agencies previously issued guidance titled "Prudent Commercial Real Estate Loan Workouts" which provides guidance for financial institutions that are working with commercial real estate ("CRE") borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties and details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. The banking agencies had also issued previous guidance titled "Interagency Guidance on Concentrations in Commercial Real Estate" stating that a banking institution will be considered to be potentially exposed to significant CRE concentration risk, and should employ enhanced risk management practices, if total CRE loans represent 300% or more of its total capital and the outstanding balance of the institution's CRE loan portfolio has increased by 50% or more during the preceding 36 months.

In October 2009, the federal banking agencies adopted a policy statement supporting workouts of CRE loans, which is referred to as the "CRE Policy Statement". The CRE Policy Statement provides guidance for examiners, and for financial institutions that are working with CRE borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The CRE Policy Statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. The CRE Policy Statement states that financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of the financial condition of borrowers will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined. The CRE Policy Statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing an institution's risk-management practices for loan workout activities.

In September 2018, the OCC provided the Bank with a letter of "no supervisory objection" to management's request to increase the Bank's multi-family residential loan concentration limit of 450% of Tier 1 Capital plus ALLL to 500% of Tier 1 Capital plus ALLL, In October of 2018, the OCC provided the Bank with an amended letter of "no supervisory objection" permitting the Bank to increase the non-multifamily commercial real estate loan concentration limit to 100 percent of Tier 1 Capital plus ALLL, including a sublimit of 50% for land/construction loans, which brought the total CRE loan concentration limit to 600% of Tier 1 Capital plus ALLL.

Loans to One Borrower

Federal savings banks generally are subject to the lending limits that are applicable to national banks. With certain limited exceptions, the maximum amount that a federal savings banks may lend to any borrower (including certain related persons or entities of such borrower) is an amount equal to 15% of the savings institution's unimpaired capital and unimpaired surplus, or $7.9 million for Broadway Federal at December 31, 2018, plus an additional 10% for loans fully secured by readily marketable collateral. Real estate is not included within the definition of "readily marketable collateral" for this purpose. We are in compliance with the limits that are applicable to loans to any one borrower. At December 31, 2018, our largest aggregate amount of loans to one borrower totaled $7.0 million. Both of the loans for the largest borrower were performing in accordance with their terms and the borrower had no affiliation with Broadway Federal.

Community Reinvestment Act and Fair Lending

The Community Reinvestment Act, as implemented by OCC regulations ("CRA"), requires each federal savings bank, as well as other lenders, to make efforts to meet the credit needs of the communities they serve, including low- and moderate-income neighborhoods. The CRA requires the OCC to assess an institution's performance in meeting the credit needs of its communities as part of its examination of the institution, and to take such assessments into consideration in reviewing applications for mergers, acquisitions and other transactions. An unsatisfactory CRA rating may be the basis for denying an application. Community groups have successfully protested applications on CRA grounds. In connection with the assessment of a savings institution's CRA performance, the OCC assigns ratings of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank's "outstanding" rating was reaffirmed in its most recent CRA examination in 2016.

The Bank is also subject to federal fair lending laws, including the Equal Credit Opportunity Act ("ECOA") and the Federal Housing Act ("FHA"), which prohibit discrimination in credit and residential real estate transactions on prohibited bases, including race, color, national origin, gender, and religion, among others. A lender may be liable under one or both of these acts in the event of overt discrimination, disparate treatment, or a disparate impact on a prohibited basis. The compliance of federal savings banks of the Bank's size with these acts is primarily supervised and enforced by the OCC. If the OCC determines that a lender has engaged in a pattern or practice of discrimination in violation of ECOA, the OCC refers the matter to the DOJ. Similarly, HUD is notified of violations of the FHA.

Qualified Thrift Lender Test

The Home Owners Loan Act ("HOLA") requires all federal savings banks to meet a Qualified Thrift Lender ("QTL") test. Under the QTL test, a federal savings bank is required to maintain at least 65% of its portfolio assets (total assets less (i) specified liquid assets up to 20% of total assets, (ii) intangibles, including goodwill, and (iii) the value of property used to conduct business) in certain "qualified thrift investments" on a monthly basis during at least 9 out of every 12 months. Qualified thrift investments include, in general, loans, securities and other investments that are related to housing, shares of stock issued by any Federal Home Loan Bank, loans for educational purposes, loans to small businesses, loans made through credit cards or credit card accounts and certain other permitted thrift investments. The failure of a federal savings bank to remain a QTL may result in required conversion of the institution to a bank charter, which would change the federal savings bank's permitted business activities in various respects, including operation under certain restrictions, such as limitations on new investments

and activities, the imposition of restrictions on branching and the payment of dividends that apply to national banks. At December 31, 2018, the Bank was in compliance with the QTL test requirements.

The USA Patriot Act, Bank Secrecy Act ("BSA"), and Anti-Money Laundering ("AML") Requirements

The USA PATRIOT Act was enacted after September 11, 2001 to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in the promulgation of several regulations that have a direct impact on savings associations. Financial institutions must have a number of programs in place to comply with this law, including: (i) a program to manage BSA/AML risk; (ii) a customer identification program designed to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorists or terrorist organizations; and (iii) a program for monitoring for the timely detection and reporting of suspicious activity and reportable transactions. Failure to comply with these requirements may result in regulatory action, including the issuance of cease and desist orders, impositions of civil money penalties and adverse changes in an institution's regulatory ratings, which could adversely affect its ability to obtain regulatory approvals for business combinations or other desired business objectives.

Privacy Protection

Broadway Federal is subject to OCC regulations implementing the privacy protection provisions of federal law. These regulations require Broadway Federal to disclose its privacy policy, including identifying with whom it shares "nonpublic personal information," to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require Broadway Federal to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not covered by an exception, Broadway Federal is required to provide its customers with the ability to "opt-out" of having Broadway Federal share their nonpublic personal information with unaffiliated third parties.

Broadway Federal is also subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Cybersecurity

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cybersecurity attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future.

The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a banking organization's the board of

directors. These guidelines, along with related regulatory materials, increasingly focus on risk management, processes related to information technology and operational resiliency, and the use of third parties in the provision of financial services.

Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers.

Savings and Loan Holding Company Regulation

As a savings and loan holding company, we are subject to the supervision, regulation, and examination of the FRB. In addition, FRB has enforcement authority over the Company and our subsidiary Broadway Federal. Applicable statutes and regulations administered by FRB place certain restrictions on our activities and investments. Among other things, we are generally prohibited, either directly or indirectly, from acquiring more than 5% of the voting shares of any savings association or savings and loan holding company that is not a subsidiary of the Company.

The Change in Bank Control Act prohibits a person, acting directly or indirectly or in concert with one or more persons, from acquiring control of a savings and loan holding company unless the FRB has been given 60 days prior written notice of such proposed acquisition and within that time period the FRB has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which a disapproval may be issued. The term "control" is defined for this purpose to include ownership or control of, or holding with power to vote, 25% or more of any class of a savings and loan holding company's voting securities. Under a rebuttable presumption contained in the regulations of the FRB, ownership or control of, or holding with power to vote, 10% or more of any class of voting securities of a savings and loan holding company will be deemed control for purposes of the Change in Bank Control Act if the institution (i) has registered securities under Section 12 of the Exchange Act, or (ii) no person will own, control, or have the power to vote a greater percentage of that class of voting securities immediately after the transaction. In addition, any company acting directly or indirectly or in concert with one or more persons or through one or more subsidiaries would be required to obtain the approval of the FRB under the Home Owners' Loan Act before acquiring control of a savings and loan holding company. For this purpose, a company is deemed to have control of a savings and loan holding company if the company (i) owns, controls, holds with power to vote, or holds proxies representing, 25% or more of any class of voting shares of the holding company, (ii) contributes more than 25% of the holding company's capital, (iii) controls in any manner the election of a majority of the holding company's directors, or (iv) directly or indirectly exercises a controlling influence over the management or policies of the savings bank or other company. The FRB may also determine, based on the relevant facts and circumstances, that a company has otherwise acquired control of a savings and loan holding company.

Restrictions on Dividends and Other Capital Distributions

In general, the prompt corrective action regulations prohibit a federal savings bank from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person, such as its parent holding company, if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition to the prompt corrective action restriction on paying dividends, OCC regulations limit certain "capital distributions" by savings associations. Capital distributions are defined to include, among other things, dividends and payments for stock repurchases and payments of cash to stockholders in mergers.

Under the OCC capital distribution regulations, a federal savings bank that is a subsidiary of a savings and loan holding company must notify the OCC at least 30 days prior to the declaration of any capital distribution by its federal savings bank subsidiary. The 30-day period provides the OCC an opportunity to object to the proposed dividend if it believes that the dividend would not be advisable.

An application to the OCC for approval to pay a dividend is required if: (i) the total of all capital distributions made during that calendar year (including the proposed distribution) exceeds the sum of the institution's year-to-date net income and its retained income for the preceding two years; (ii) the institution is not entitled under OCC regulations to "expedited treatment" (which is generally available to institutions the OCC regards as well run and adequately capitalized); (iii) the institution would not be at least "adequately capitalized" following the proposed capital distribution; or (iv) the distribution would violate an applicable statute, regulation, agreement, or condition imposed on the institution by the OCC.

The Bank's ability to pay dividends to the Company is also subject to the restriction that the Bank is not permitted to pay dividends to the Company if its regulatory capital would be reduced below the amount required for the liquidation account established in connection with the conversion of the Bank from the mutual to the stock form of organization.

See Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" and Note 13 of the Notes to Consolidated Financial Statements for a further description of dividend and other capital distribution limitations to which the Company and the Bank are subject.

Tax Matters

Federal Income Taxes

We report our income on a calendar year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with certain exceptions, including particularly the Bank's tax reserve for bad debts. The Bank has qualified under provisions of the Internal Revenue Code (the "Code") that in the past allowed qualifying savings institutions to establish reserves for bad debts, and to make additions to such reserves, using certain preferential methodologies. In December 2017, Congress passed the Tax Cuts and Jobs Act of 2017, which lowered our federal income tax rate to 21% from 34% starting in year 2018. See Note 11 of the Notes to Consolidated Financial Statements for a further description of tax matters applicable to our business.

California Taxes

As a savings and loan holding company filing California franchise tax returns on a combined basis with its subsidiaries, the Company is subject to California franchise tax at the rate applicable to "financial corporations." The applicable statutory tax rate is 10.84%.

ITEM 2. PROPERTIES

We conduct our business through three branch offices and a corporate office. Our loan service operation is also conducted from one of our branch offices. Our administrative and corporate operations are conducted from our corporate facility located at 5055 Wilshire Boulevard, Suite 500, Los Angeles. There are no mortgages, material liens or encumbrances against any of our owned properties. We believe that all of the properties are adequately covered by insurance, and that our facilities are adequate to meet our present needs.

As of December 31, 2018, the net book value of our investment in premises, equipment and fixtures, excluding computer equipment, was $2.2 million. Total occupancy expense, inclusive of rental payments and furniture and

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equipment expense, for the year ended December 31, 2018 was $1.3 million. Total annual rental expense (exclusive of operating charges and real property taxes) was approximately $593 thousand during 2018.

Location	Leased or Owned	Original Date Leased or Acquired	Date of Lease Expiration
Administrative/Loan Origination Center: 5055 Wilshire Blvd, Suite 500 Los Angeles, CA	Leased	2013	April 2021
Branch Offices: 5055 Wilshire Blvd, Suite 100 Los Angeles, CA	Leased	2013	April 2021
170 N. Market Street Inglewood, CA (Branch Office/Loan Service Center)	Owned	1996	-
4001 South Figueroa Street Los Angeles, CA	Owned	1996	-

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are defendants in various litigation matters from time to time. In our opinion, the disposition of any litigation and other legal and regulatory matters currently pending or threatened against us would not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Capital Market under the symbol "BYFC." The table below shows the high and low sale prices for our common stock during the periods indicated.

2018	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
High	$ 2.55	$ 2.44	$ 2.20	$ 1.60
Low	$ 1.95	$ 1.92	$ 1.38	$ 0.95

2017	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
High	$ 1.89	$ 2.14	$ 2.67	$ 2.60
Low	$ 1.47	$ 1.63	$ 1.91	$ 2.00

The closing sale price for our common stock on the Nasdaq Capital Market on March 9, 2019 was $1.45 per share. As of March 8, 2019, we had 294 stockholders of record and 19,133,366 shares of voting common stock outstanding. At that date, we also had 8,756,396 shares of non-voting common stock outstanding. Our non-voting common stock is not listed for trading on the Nasdaq Capital Market, but is convertible into our voting common stock in connection with certain sale or other transfer transactions.

In general, we may pay dividends out of funds legally available for that purpose at such times as our Board of Directors determines that dividend payments are appropriate, after considering our net income, capital requirements, financial condition, alternate investment options, prevailing economic conditions, industry practices and other factors deemed to be relevant at the time. We suspended our prior policy of paying regular cash dividends in May 2010 in order to retain capital for reinvestment in the Company's business.

Our financial ability to pay permitted dividends is primarily dependent upon receipt of dividends from Broadway Federal. Broadway Federal is subject to certain requirements which may limit its ability to pay dividends or make other capital distributions. See Item 1 "Business Regulation" and Note 13 of the Notes to Consolidated Financial Statements in Item 8 "Financial Statements and Supplementary Data" for an explanation of the impact of regulatory capital requirements on Broadway Federal's ability to pay dividends.

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Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued under equity compensation plans as of December 31, 2018.

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2008 Long Term Incentive Plan	537,500	$ 2.19	-
2018 Long Term Incentive Plan	-	-	1,293,109
Equity compensation plans not approved by security holders:			
None	-	-	-
Total	537,500	$ 2.19	1,293,109

As of December 31, 2018, 120,483 shares of restricted stock and 48,908 shares of voting common stock had been issued under the 2008 Long Term Incentive Plan. In addition, the Company had also awarded 97,195 and 129,270 of cash-settled restricted stock units ("RSUs") under the 2008 LTIP. As of December 31, 2018, no shares had been issued under the 2018 LTIP. Our Board of Directors intends to consider issuing equity incentives to certain key employees as a form of long-term compensation that will help align the interests of senior management with those of our stockholders. However, our ability to issue options and other forms of equity incentives to our Chief Executive Officer is restricted pursuant to the terms of the agreements entered into in 2008 and 2009 pursuant to which the U.S. Treasury Department invested in the Company, and the related regulations under the Treasury Department's Troubled Asset Relief Program.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and other factors that have affected our reported results of operations and financial condition or may affect our future results or financial condition. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

Overview

Total assets decreased by $4.3 million to $409.4 million at December 31, 2018 from $413.7 million at December 31, 2017. The decrease in total assets during 2018 primarily consisted of a decrease of $16.1 million in loans receivable held for sale, a decrease of $6.3 million in interest-bearing deposits held in other banks, and a decrease of $2.8 million in securities available for sale, offset by an increase of $20.7 million in net loans receivable held for investment driven, in part, by a decrease of $1.1 million in ALLL.

Total liabilities decreased by $5.0 million to $360.1 million at December 31, 2018 from $366.0 million at December 31, 2017. The decrease in total liabilities during 2018 resulted primarily from a decrease of $9.9 million in total deposits, offset by an increase of $5.0 million in FHLB advances

We recorded net income of $815 thousand for the year ended December 31, 2018 compared to $1.9 million for the year ended December 31, 2017. The decrease in net income during 2018 resulted primarily from a decrease in net interest income of $1.6 million and a decrease in non-interest income of $1.7 million, offset by a decrease in income tax expense of $1.8 million.

Comparison of Operating Results for the Years Ended December 31, 2018 and 2017

General

Our most significant source of income is net interest income, which is the difference between our interest income and our interest expense. Generally, interest income is generated from our loans and investments (interest-earning assets) and interest expense is incurred from deposits and borrowings (interest-bearing liabilities). Typically, our results of operations are also affected by our provision for or recapture of loan losses, non-interest income generated from service charges and fees on loan and deposit accounts, gains or losses on the sale of loans and REO, non-interest expenses, and income taxes.

Net Interest Income

For the year ended December 31, 2018, net interest income decreased by $1.6 million to $10.3 million, from $11.9 million for the same period in 2017.

Interest and fees on loans receivable decreased by $1.1 million for the year ended December 31, 2018 compared to the same period a year ago, primarily due to a decrease of $14.8 million in the average balance of loans receivable, which decreased interest income by $588 thousand, and a decrease of 14 basis points in the average yield on loans receivable, which reduced loan interest income by $530 thousand. The decrease in the average balance of loans receivable reflected loan sales that the Bank completed in the second half of 2017 and early 2018to maintain compliance with the lower loan concentration limits that existed during that period.

Interest income on securities increased by $95 thousand for the year ended December 31, 2018 compared to the prior year, primarily due to an increase of $2.6 million in the average balance of securities, which increased interest

income by $66 thousand, and an increase of 21 basis points in the average yield on securities, which increased interest income by $29 thousand.

Other interest income decreased by $27 thousand for the year ended December 31, 2018 compared to the prior year, primarily due to a decrease of $15.0 million of the average interest-earning deposits, which decreased other interest income by $232 thousand. This decrease was partially offset by an increase of 68 basis points in the average yield of interest-earning deposits, which increased other interest income by $153 thousand, and an increase of $52 thousand in the interest earning on FHLB stock, primarily due to a $47 thousand special dividend received during the fourth quarter of 2018.

Interest expense on deposits increased by $691 thousand for the year ended December 31, 2018 compared to the prior year, primarily due to an increase of 29 basis points in the average cost of deposits, which increased interest expense by $888 thousand. This increase was partially offset by the effects of a decrease of $12.7 million in the average balance of deposits, which decreased interest expense by $197 thousand.

Interest expense on borrowings decreased by $110 thousand for the year ended December 31, 2018 compared to the prior year, primarily due to a decrease of $14.6 million in the average balance of FHLB advances, which decreased interest expense on borrowings by $307 thousand. This decrease was partially offset by an increase of 16 basis points in the average cost of FHLB advances, which increased interest expense on borrowings by $141 thousand. The average cost of the Company's junior subordinated debentures increased by 110 basis points, which increased interest expense on borrowings by $56 thousand.

Analysis of Net Interest Income

Net interest income is the difference between income on interest-earning assets and the expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. The following table sets forth average balances, average yields and costs, and certain other information for the years indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred loan fees, deferred origination costs, and discounts and premiums that are amortized or accreted to interest income or expense. We do not accrue interest on loans that are on non-accrual status; however, the balance of these loans is included in the total average balance, which has the effect of reducing average loan yields.

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	For the year ended December 31,					
	2018			2017		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets						
Interest-earning assets:						
Interest-earning deposits and other short-term investments	$ 15,470	$ 294	1.90%	$ 30,486	$ 373	1.22%
Securities	16,019	413	2.58%	13,408	318	2.37%
Loans receivable (1)	366,453	14,279 (2)	3.90%	381,293	15,397 (3)	4.04%
FHLB stock	2,916	251	8.61%	2,836	199	7.02%
Total interest-earning assets	400,858	$ 15,237	3.80%	428,023	$ 16,287	3.81%
Non-interest-earning assets	10,225			10,747		
Total assets	$ 411,083			$ 438,770		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Money market deposits	$ 37,489	$ 320	0.85%	$ 38,318	$ 268	0.70%
Passbook deposits	41,975	175	0.42%	39,064	125	0.32%
NOW and other demand deposits	34,779	31	0.09%	32,275	20	0.06%
Certificate accounts	164,703	2,563	1.56%	181,993	1,985	1.09%
Total deposits	278,946	3,089	1.11%	291,650	2,398	0.82%
FHLB advances	74,729	1,590	2.13%	89,279	1,756	1.97%
Junior subordinated debentures	5,100	250	4.90%	5,100	194	3.80%
Total interest-bearing liabilities	358,775	$ 4,929	1.37%	386,029	$ 4,348	1.13%
Non-interest-bearing liabilities	4,699			5,587		
Stockholders' Equity	47,609			47,154		
Total liabilities and stockholders' equity	$ 411,083			$ 438,770		
Net interest rate spread (4)		$ 10,308	2.43%		$ 11,939	2.68%
Net interest rate margin (5)			2.57%			2.79%
Ratio of interest-earning assets to interest-bearing liabilities			111.73%			110.88%

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(1)

Amount is net of deferred loan fees, loan discounts and loans in process, and includes deferred origination costs, loan premiums and loans receivable held for sale.

(2)

Includes non-accrual interest of $40 thousand, reflecting interest recoveries on non-accrual loans that were paid off, and deferred cost amortization of $503 thousand for the year ended December 31, 2018.

(3)

Includes non-accrual interest of $316 thousand, reflecting interest recoveries on non-accrual loans that were paid off, and deferred cost amortization of $301 thousand for the year ended December 31, 2017.

(4)

Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(5)

Net interest rate margin represents net interest income as a percentage of average interest-earning assets.

Changes in our net interest income are a function of changes in both rates and volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in our interest income and expense for the years indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate

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(changes in rate multiplied by prior volume), and (iii) the total change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year ended December 31, 2018 Compared to Year ended December 31, 2017 Increase (Decrease) in Net Interest Income			Year ended December 31, 2017 Compared to Year ended December 31, 2016 Increase (Decrease) in Net Interest Income		
	Due to Volume	Due to Rate	Total	Due to Volume	Due to Rate	Total
	(In thousands)					
Interest-earning assets:						
Interest-earning deposits and other short-term investments	$ (232)	$ 153	$ (79)	$ (25)	$ 230	$ 205
Securities	66	29	95	(27)	22	(5)
Loans receivable, net	(588)	(530)	(1,118)	1,638	(726)	912
FHLB stock	6	46	52	29	(144)	(115)
Total interest-earning assets	(748)	(302)	(1,050)	1,615	(618)	997
Interest-bearing liabilities:						
Money market deposits	(6)	58	52	72	38	110
Passbook deposits	10	40	50	8	-	8
NOW and other demand deposits	2	9	11	1	(1)	-
Certificate accounts	(203)	781	578	40	60	100
Total deposits	(197)	888	691	121	97	218
FHLB advances	(302)	141	(161)	348	(122)	226
Junior subordinated debentures	0	51	51	-	27	27
Total interest-bearing liabilities	(499)	1080	581	469	2	471
Change in net interest income	$ (249)	$ (1,382)	$ (1,631)	$ 1,146	$ (620)	$ 526

Loan Loss Provision Recapture

For the year ended December 31, 2018, we recorded a loan loss provision recapture of $1.3 million compared to $1.1 million for the year ended December 31, 2017. The loan loss provision recapture for 2018 was due to the overall improvement in the loan portfolio, which had a favorable impact on the environmental factors used in the Bank's analysis of the ALLL. See "Allowance for Loan Losses" for additional information.

Non-Interest Income

For the year ended December 31, 2018, non-interest income decreased by $1.7 million compared to the same period in 2017. The decrease in non-interest income was primarily due to a one-time insurance litigation settlement of $1.2 million received during 2017. In addition, gain on sale of loans decreased by $490 thousand during 2018 compared to 2017 due primarily to a decrease in the dollar amount of loans sold to $19.3 million in 2018 from $96.9 million in 2017.

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Non-Interest Expense

For the year ended December 31, 2018, our non-interest expense decreased by $281 thousand compared to the same period in 2017. The decrease in non-interest expense was primarily due to a decrease of $85 thousand in other expense as a result of a $214 thousand expense associated with the sale of a portion of the shares of the Company's common stock owned by the U.S. Treasury Department during 2017, partially offset by higher expenses of $88 thousand associated with the Bank's one foreclosed property. In addition, professional services expenses decreased by $63 thousand, corporate insurance decreased by $49 thousand, and compensation and benefits expenses decreased by $37 thousand during the year 2018 compared to 2017.

Income Taxes

We recorded an income tax income tax expense of $56 thousand for the year 2018. Income tax expense for the year 2018 resulted from a standard tax provision of $261 thousand, offset by tax credits of $205 thousand. For the year 2017, we recorded income tax expense of $1.9 million. The tax expense for the year 2017 included an adjustment of $519 thousand to record the Company's deferred tax assets at the lower federal corporate income tax rate of 21%.

The deferred tax asset totaled $5.0 million at December 31, 2018 and $5.1 million at December 31, 2017. See Note 1 "Summary of Significant Accounting Policies" and Note 11 "Income Taxes" of the Notes to Consolidated Financial Statements for a further discussion of income taxes and a reconciliation of income tax at the federal statutory tax rate to actual tax expense (benefit).

Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize net operating loss carryforwards, tax credit carryovers and other income tax attributes when there is an ownership change. Generally, the rules provide that an ownership change is deemed to have occurred when the cumulative increase of each 5% or more stockholder and certain groups of stockholders treated as 5% or more stockholders, as determined under Section 382, exceeds 50% over a specified "testing" period, generally equal to three years. Section 382 applies rules regarding the treatment of new groups of stockholders treated as 5% stockholders due to issuances of stock and other equity transactions, which may cause a change of control to occur. The Company has performed an analysis of the potential impact of Section 382 and has determined that the Company did not undergo an ownership change during 2018 or 2017 and any potential limitations imposed under Section 382 do not currently apply.

Comparison of Financial Condition at December 31, 2018 and 2017

Total Assets

Total assets decreased by $4.3 million to $409.4 million at December 31, 2018 from $413.7 million at December 31, 2017. The decline in total assets was primarily due to a decrease of $16.1 million in loans receivable held for sale, a decrease of $6.3 million in interest-bearing deposits in other banks, and a decrease in securities available for sale of $2.8 million, offset by an increase of $20.7 million in net loans receivable held for investment.

Loans Receivable Held for Sale

Loans receivable held for sale totaled $6.2 million as of December 31, 2018 compared to $22.4 million as of December 31, 2017. During 2018, the Bank originated $20.2 in loans held for sale during 2018, transferred $16.9 million to loans held for investment, sold $19.3 million in loans held for sale and received $159 thousand in loan repayments on loans held for sale.

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Loans Receivable Held for Investment

Loans receivable held for investment, net of the allowance for loan losses, totaled $355.6 million at December 31, 2018, compared to $334.9 million at December 31, 2017.

During 2018, the Bank originated $99.0 million in new loans, $96.0 million of which were multi-family loans. Of the multi-family loans originated, we allocated $75.8 million, or 79%, to loans held for investment and $20.2 million, or 21%, to loans held for sale. In addition, during 2018, we transferred $16.9 million of loans receivable held for sale to loans receivable held for investment. At the end of the third quarter of 2018, the Bank requested and received written non-objection from the OCC to increase the Bank's concentration of multi-family residential loans. The Bank also requested and received written non-objection from the OCC to increase its concentration of non-multifamily commercial real estate loans, including the sublimit for commercial land/construction loans.

There were no loan charge-offs during 2018 or 2017. During 2017, we received one deed in lieu of foreclosure and recorded an REO at fair value, net of estimated selling costs, of $878 thousand at December 31, 2017. During 2018 this property was written down by $45 thousand and is now recorded at a fair value, net of estimated selling costs of $833 thousand as of December 31, 2018. No loans were transferred to REO during 2018.

Allowance for Loan Losses

We record a provision for loan losses as a charge to earnings when necessary in order to maintain the ALLL at a level sufficient, in management's judgment, to absorb probable incurred losses in the loan portfolio. At least quarterly we conduct an assessment of the overall quality of the loan portfolio and general economic trends in the local market. The determination of the appropriate level for the allowance is based on that review, considering such factors as historical loss experience for each type of loan, the size and composition of our loan portfolio, the levels and composition of our loan delinquencies, non-performing loans and net loan charge-offs, the value of underlying collateral on problem loans, regulatory policies, general economic conditions, and other factors related to the collectability of loans in the portfolio.

Our ALLL decreased to $2.9 million or 0.82% of our gross loans receivable held for investment at December 31, 2018 compared to $4.1 million, or 1.20% of our gross loans receivable held for investment at December 31, 2017, primarily reflecting loan loss provision recaptures of $1.3 million, which were partially offset by recoveries of $114 thousand. The reduction in ALLL at December 31, 2018 compared to December 31, 2017, and the loan loss provision recaptures during 2018, reflect the results of our quarterly reviews of the adequacy of the ALLL. We continue to maintain our ALLL at a level that we believe is appropriate, given the significant reduction in delinquencies and non-performing loans, the continued improvement in our asset credit quality metrics and the high quality of our loan originations.

Our loan delinquencies and non-performing loans ("NPLs") are at their lowest levels since December 2009. We had total delinquencies of $35 thousand at December 31, 2018 compared to $391 thousand at December 31, 2017. NPLs consist of delinquent loans that are 90 days or more past due and other loans, including troubled debt restructurings that do not qualify for accrual status. At December 31, 2018, NPLs totaled $911 thousand compared to $1.8 million at December 31, 2017. The decrease of $855 thousand in NPLs was primarily due to payoffs of $659 thousand, repayments of $196 thousand.

In connection with our review of the adequacy of our ALLL, we track the amount and percentage of our NPLs that are paying currently, but nonetheless must be classified as NPL for reasons unrelated to payments, such as lack of current financial information and an insufficient period of satisfactory performance. As of December 31, 2018, all of our $911 thousand of NPLs were current in their payments. Also, in determining the ALLL, we consider the ratio of the ALLL to NPLs, which increased to 321.51% at December 31, 2018 from 230.41% at December 31, 2017.

When reviewing the adequacy of the ALLL, we also consider the impact of charge-offs, including the changes and trends in loan charge-offs. There were no loan charge-offs during 2018 and 2017. In determining charge-offs, we update our estimates of collateral values on NPLs by obtaining new appraisals at least every nine months. If the estimated fair value of the loan collateral less estimated selling costs is less than the recorded investment in the loan, a charge-off for the difference is recorded to reduce the loan to its estimated fair value, less estimated selling costs. Therefore, certain losses inherent in our total NPLs are recognized periodically through charge-offs. The impact of updating these estimates of collateral value and recognizing any required charge-offs is to increase charge-offs and reduce the ALLL required on these loans. Due to prior charge-offs and increases in collateral values, the average recorded investment in NPLs was only 31%of estimated fair value less estimated selling costs as of December 31, 2018.

Recoveries during 2018 and 2017 totaled $114 thousand and $566 thousand, respectively. Recoveries during 2018 and 2017 primarily resulted from the payoffs of non-accrual loans which had been previously partially charged off.

Impaired loans at December 31, 2018 were $6.4 million, compared to $9.3 million at December 31, 2017. The decrease of $3.1 million in impaired loans was primarily due to payoffs and repayments. Specific reserves for impaired loans were $227 thousand or 3.56% of the aggregate impaired loan amount at December 31, 2018 compared to $585 thousand, or 6.29% of the aggregate impaired loan amount at December 31, 2017. Excluding specific reserves for impaired loans, our coverage ratio (general allowance as a percentage of total non-impaired loans) was 0.77% at December 31, 2018 compared to 1.06% at December 31, 2017. The decrease in the coverage ratio during 2018 was due to overall improvement in the credit quality of the loan portfolio, which had a favorable impact on the environmental factors used in our analysis of the ALLL.

We believe that the ALLL is adequate to cover probable incurred losses in the loan portfolio as of December 31, 2018, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the OCC and the FDIC periodically review the ALLL as an integral part of their examination process. These agencies may require an increase in the ALLL based on their judgments of the information available to them at the time of their examinations.

Deposits

Deposits decreased by $9.9 million to $281.4 million at December 31, 2018 from $291.3 million at December 31, 2017, which consisted of a decrease of $35.7 million in liquid deposits and an increase of $25.8 million in CDs. During 2018, one deposit relationship of $25.0 million was moved to CDs from a money market account. Excluding this transfer, liquid deposits decreased by $10.7 million and CDs increased by $775 thousand during 2018.

One customer relationship accounted for approximately 11% of our deposits at December 31, 2018. We expect to maintain this relationship with the customer for the foreseeable future.

Borrowings

Total borrowings at December 31, 2018 consisted of advances to the Bank from the FHLB of $70.0 million, and subordinated debentures issued by the Company of $5.1 million, compared to advances from the FHLB of $65.0 million and subordinated debentures of $5.1 million at December 31, 2017. During 2018, the Bank paid off $27.5 million in maturing FHLB advances and borrowed $32.5 million in new advances from the FHLB.

The weighted average cost of FHLB advances increased by 65 basis points to 2.51% at December 31, 2018 from 1.86% at December 31, 2017 primarily due to the higher interest rate environment and the lengthening of maturities from an average of 18 months as of December 31, 2017 to 24 months as of December 31, 2018.

Stockholders' Equity

Stockholders' equity was $48.4 million, or 11.83% of the Company's total assets, at December 31, 2018, compared to $47.7 million, or 11.54% of the Company's total assets, at December 31, 2017. The Company's book value was $1.77 per share as of December 31, 2018, compared to $1.74 per share as of December 31, 2017.

Capital Resources

Our principal subsidiary, Broadway Federal, must comply with capital standards established by the OCC in the conduct of its business. Failure to comply with such capital requirements may result in significant limitations on its business or other sanctions. As a "small bank holding company", we are not subject to consolidated capital requirements under the new Basel III capital rules. The current regulatory capital requirements and possible consequences of failure to maintain compliance are described in Part I, Item 1 "Business-Regulation" and in Note 13 of the Notes to Consolidated Financial Statements.

Liquidity

The objective of liquidity management is to ensure that we have the continuing ability to fund operations and meet our obligations on a timely and cost-effective basis. The Bank's sources of funds include deposits, advances from the FHLB, other borrowings, proceeds from the sale of loans, REO, and investment securities, and payments of principal and interest on loans and investment securities. The Bank is currently approved by the FHLB to borrow up to 30% of total assets to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. This approved limit and collateral requirement would have permitted the Bank to borrow an additional $54.6 million at December 31, 2018.

The Bank's primary uses of funds include withdrawals of and interest payments on deposits, originations of loans, purchases of investment securities, and the payment of operating expenses. Also, when the Bank has more funds than required for reserve requirements or short-term liquidity needs, the Bank invests excess cash with the Federal Reserve Bank or other financial institutions. The Bank's liquid assets at December 31, 2018 consisted of $16.7 million in cash and cash equivalents and $14.7 million in securities available-for-sale that were not pledged, compared to $22.2 million in cash and cash equivalents and $17.0 million in securities available-for-sale that were not pledged at December 31, 2017. Currently, we believe that the Bank has sufficient liquidity to support growth over the foreseeable future.

The Company's liquidity, separate from the Bank, is based primarily on the proceeds from financing transactions, such as the private placements completed in August 2013, October 2014 and December 2016 and dividends received from the Bank in 2018, 2017, and 2016. The Bank is currently under no prohibition to pay dividends, but is subject to restrictions as to the amount of the dividends based on normal regulatory guidelines.

The Company recorded consolidated net cash inflows from operating activities of $234 thousand and net cash outflows from operating activities of $10.2 million during the years ended December 31, 2018 and 2017, respectively. Net cash inflows from operating activities during 2018 were primarily attributable to proceeds from sales and repayments of loans receivable held for sale of $19.6 million, offset by originations of loans receivable held for sale of $20.3 million and a loan loss provision recapture of $1.3 million. Net cash outflows from operating activities during 2017 were primarily attributable to originations of multi-family loans for the Bank's loans held for sale portfolio, which were partially offset by net proceeds from the sale of loans.

The Company recorded consolidated net cash outflows from investing activities of $818 thousand and net cash inflows from investing activities of $30.2 million during the years ended December 31, 2018 and 2017, respectively. Net cash outflows from investing activities during 2018 were primarily attributable to a net increase in loans receivable held for investment of $3.2 million, offset by principal repayments on available-for-sale securities of

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$2.4 million. Net cash inflows from investing activities during 2017 were primarily attributable to a net decrease in loans receivable held for investment, due primarily to repayments on loans held for investment and principal repayments on securities available-for-sale, which were partially offset by purchases of single-family loans and securities.

The Company recorded consolidated net cash outflows from financing activities of $5.0 million and $16.1 million during the years ended December 31, 2018 and 2017, respectively. Net cash outflows from financing activities during 2018 were primarily attributable to repayments on FHLB advances of $27.5 million and a net outflow of deposits of $9.9 million, offset by an increase in proceeds from FHLB advances of $32.5 million. Net cash outflows from financing activities during 2017 were primarily attributable to repayments on FHLB advances, offset by an increase in proceeds from FHLB advances.

Off-Balance-Sheet Arrangements and Contractual Obligations

We are party to financial instruments with off-balance-sheet risk in the normal course of our business, primarily in order to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are either not recorded in the consolidated financial statements or are recorded in amounts that differ from the notional amounts. Such instruments primarily include lending commitments and lease commitments as described below.

Lending commitments include commitments to originate loans and to fund lines of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate creditworthiness on a case-by-case basis. Our maximum exposure to credit risk is represented by the contractual amount of the instruments.

In addition to our lending commitments, we have contractual obligations related to operating lease commitments. Operating lease commitments are obligations under various non-cancellable operating leases on buildings and land used for office space and banking purposes. The following table details our contractual obligations at December 31, 2018.

	Less than one year	More than one year to three years	More than three years to five years	More than five years	Total
			(Dollars in thousands)		
Certificates of deposit	$ 133,654	$ 36,939	$ 1,930	$ 41	$ 172,564
FHLB advances	8,000	62,000	-	-	70,000
Subordinated debentures	765	2,040	2,040	255	5,100
Commitments to originate loans	10,875	-	-	-	10,875
Commitments to fund unused lines of credit	1,153	-	-	338	1,491
Operating lease obligations	516	711	-	-	1,227
Total contractual obligations	$ 154,963	$ 101,690	$ 3,970	$ 634	$ 261,257

Impact of Inflation and Changing Prices

Our consolidated financial statements, including accompanying notes, have been prepared in accordance with GAAP which require the measurement of financial position and operating results primarily in terms of historical

dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in increased costs of our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. This discussion highlights those accounting policies that management considers critical. All accounting policies are important, however, and therefore you are encouraged to review each of the policies included in Note 1 "Summary of Significant Accounting Principles" of the Notes to Consolidated Financial Statements beginning at page F-8 to gain a better understanding of how our financial performance is measured and reported. Management has identified the Company's critical accounting policies as follows:

Allowance for Loan Losses

The determination of the allowance for loan losses is considered critical due to the high degree of judgment involved, the subjectivity of the underlying assumptions used, and the potential for changes in the economic environment that could result in material changes in the amount of the allowance for loan losses considered necessary. The allowance is evaluated on a regular basis by management and the Board of Directors and is based on a periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect borrowers' ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and feedback from regulatory examinations. See Item 1, "Business Asset Quality Allowance for Loan Losses" for a full discussion of the allowance for loan losses.

Real Estate Owned ("REO")

REO consists of property acquired through foreclosure or deed in lieu of foreclosure and is recorded at the fair value, less estimated costs to sell, at the time of acquisition. The excess, if any, of the loan balance over the fair value of the property at the time of transfer from loans to REO is charged to the allowance for loan losses. Subsequent to the transfer to REO, if the fair value of the property less estimated selling costs declines to an amount less than the carrying value of the property, the deficiency is charged to income as a provision expense and a valuation allowance is established. Operating costs after acquisition are expensed as incurred. Due to changing market conditions, there are inherent uncertainties in the assumptions made with respect to the estimated fair value of REO. Therefore, the amount ultimately realized may differ from the amounts reflected in the accompanying consolidated financial statements.

Income Taxes

Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, forecasts of future income and available tax planning strategies. This analysis is updated quarterly. Based on this analysis, we determined that no valuation allowance was required on our deferred tax assets, which totaled $5.0 million and $5.1 million at December 31, 2018 and 2017,

respectively. See Note 11 "Income Taxes" of the Notes to Consolidated Financial Statements in Item 8, "Financial Statements and Supplementary Data."

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair values are estimated using relevant market information and other assumptions, as more fully disclosed in Note 5 of the Notes to Consolidated Financial Statements. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements of Broadway Financial Corporation and Subsidiaries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of December 31, 2018, an evaluation was performed under the supervision of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Management's annual report on internal control over financial reporting

The management of Broadway Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Exchange Act. This system, which management has chosen to base on the framework set forth in *Internal Control-Integrated Framework*, published by the 1992 Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and which is effected by the Company's Board of Directors, management and other personnel, is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the Directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management has conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting. Based on this evaluation, management determined that the Company's system of internal control over financial reporting was effective as of December 31, 2018.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in internal control over financial reporting

There were no significant changes in the Company's internal control over financial reporting identified in connection with the evaluation of internal control over financial reporting that occurred during the fourth quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/ Wayne-Kent A. Bradshaw	/s/ Brenda J. Battey
Wayne-Kent A. Bradshaw *Chief Executive Officer* (Principal Executive Officer)	Brenda J. Battey *Chief Financial Officer* (Principal Financial Officer and Principal Accounting Officer)
Los Angeles, CA March 29, 2019	Los Angeles, CA March 29, 2019

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ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement, under the captions "Election of Directors", "Executive Officers", "Code of Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance", to be filed with the Securities and Exchange Commission in connection with the Company's 2019 Annual Meeting of Stockholders (the "Company's Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Executive Compensation" and "Director Compensation".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Security Ownership of Certain Beneficial Owners and Management".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Certain Relationships and Related Transactions" and "Election of Directors".

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Ratification of the Appointment of the Independent Registered Public Accounting Firm".

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

1. See Index to Consolidated Financial Statements.

2. Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes included under Item 8, "Financial Statements and Supplementary Data."

(b)

List of Exhibits

Exhibit Number*	
3.1	Certificate of Incorporation of Registrant and all amendments thereto (Exhibit 3.1 to Form 10-Q filed by Registrant on November 13, 2014)
3.2	Bylaws of Registrant (Exhibit 3.2 to Form 10-K filed by Registrant on March 28, 2016)

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Exhibit Number*	
10.1**	Broadway Federal Bank Employee Stock Ownership Plan (Exhibit 10.1 to Form 10-K filed by Registrant on March 28, 2016)
10.2**	Amended and Restated Broadway Financial Corporation 2008 Long Term Incentive Plan (Exhibit 10.3 to Form 10-Q filed by Registrant on August 12, 2016)
10.3**	Amended Form of Stock Option Agreement for stock options granted pursuant to Amended and Restated Broadway Financial Corporation 2008 Long-Term Incentive Plan (Exhibit 10.1 to Form 10-Q filed by Registrant on August 12, 2016)
10.4**	Award Agreement, dated March 30, 2016, for restricted stock granted to Wayne-Kent A. Bradshaw pursuant to Broadway Financial Corporation 2008 Long-Term Incentive Plan (Exhibit 10.2 to Form 10-Q filed by Registrant on August 12, 2016)
10.5**	Broadway Financial Corporation 2018 Long-Term Incentive Plan.
10.6**	Form of Award Agreement for grants of restricted stock pursuant to Broadway Financial Corporation 2018 Long-Term Incentive Plan.
10.7**	Employment Agreement, dated as of March 22, 2017, for Wayne-Kent A. Bradshaw.
10.8**	Award Agreement, dated as of April 26, 2017 for grant of restricted stock units to Wayne-Kent A. Bradshaw pursuant to Broadway Financial Corporation 2008 Long Term Incentive Plan.
10.9**	Award Agreement, dated as of February 21, 2018 for grant of restricted stock units to Wayne-Kent A. Bradshaw pursuant to Broadway Financial Corporation 2008 Long Term Incentive Plan.
10.10**	Award Agreement, dated as of February 27, 2019 for grant of restricted stock to Wayne-Kent A. Bradshaw pursuant to Broadway Financial Corporation 2018 Long-Term Incentive Plan.
10.11**	Employment Agreement, dated as of May 1, 2017, for Brenda J. Battey.
10.12**	Employment Agreement, dated as of May 1, 2017, for Norman Bellefeuille.
10.13**	Employment Agreement, dated as of May 1, 2017, for Ruth McCloud.
10.14**	Broadway Federal Bank Incentive Compensation Plan.
10.15	Securities Purchase Agreement, dated as of December 21, 2016, entered into among United States Treasury Department, Registrant, First Republic Bank and Broadway Federal Bank, f.s.b., Employee Stock Ownership Plan (Exhibit 10.7 to Form 10-K filed by Registrant on March 27, 2017)
10.16	Stock Purchase Agreement, dated as of December 21, 2016, entered into between First Republic Bank and Registrant (Exhibit 10.8 to Form 10-K filed by Registrant on March 27, 2017)
10.17	Exchange Agreement, dated as December 21, 2016, entered into between CJA Private Financial Restructuring Master Fund I L.P. and Registrant (Exhibit 10.9 to Form 10-K filed by Registrant on March 27, 2017)
10.18	Stock Purchase Agreement, dated as of December 21, 2016, entered into between Bank of Hope and Registrant (Exhibit 10.10 to Form 10-K filed by Registrant on March 27, 2017)
10.19	Stock Purchase and Exchange Agreement, dated as of December 21, 2016, entered into between National Community Investment Fund and Registrant (Exhibit 10.11 to Form 10-K filed by Registrant on March 27, 2017)
10.20	ESOP Loan Agreement and ESOP Pledge Agreement, each dated as of December 19, 2016, entered into between Registrant and Nicholas L. Saakvitne, as trustee for the Broadway Federal Bank, f.s.b., Employee Stock Ownership Plan Trust, and related Promissory Note, dated as of December 19, 2016 (Exhibit 10.12 to Form 10-K filed by Registrant on March 27, 2017)

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Exhibit Number*	
21.1	List of Subsidiaries (Exhibit 21.1 to Registration Statement on Form S-1 filed by Registrant on November 20, 2013)
23.1	Consent of Moss Adams LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.4	Certification of Chief Executive Officer pursuant to Interim Final Rule TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30
99.5	Certification of Chief Financial Officer pursuant to Interim Final Rule TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Exhibits followed by a parenthetical reference are incorporated by reference herein from the document filed by the Registrant with the SEC described therein. Except as otherwise indicated, the SEC File No. for each incorporated document is 000-27464.

** Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROADWAY FINANCIAL CORPORATION

By: /s/ Wayne-Kent A. Bradshaw

Wayne-Kent A. Bradshaw
Chief Executive Officer

Date: March 29, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Date
/s/ Wayne-Kent A. Bradshaw Wayne-Kent A. Bradshaw Chief Executive Officer and President (Principal Executive Officer)	Date: March 29, 2019
/s/ Brenda J. Battey Brenda J. Battey Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	Date: March 29, 2019
/s/ Virgil P. Roberts Virgil P. Roberts Chairman of the Board	Date: March 29, 2019
/s/ Robert C. Davidson, Jr. Robert C. Davidson, Jr. Director	Date: March 29, 2019
/s/ Jack T. Thompson Jack T. Thompson Director	Date: March 29, 2019
/s/ Daniel A. Medina Daniel A. Medina Director	Date: March 29, 2019
/s/ Dutch C. Ross III Dutch C. Ross III Director	Date: March 29, 2019
/s/ Erin Selleck	Date: March 29,

2019

Erin Selleck
Director

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Broadway Financial Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Broadway Financial Corporation and Subsidiary (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

San Francisco, California
March 29, 2019

We have served as the Company's auditor since 2014.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Financial Condition

	December 31, 2018	December 31, 2017
	(In thousands, except share and per share)	
Assets:		
Cash and due from banks	$ 4,124	$ 3,420
Interest-bearing deposits in other banks	12,527	18,799
Cash and cash equivalents	16,651	22,219
Investment securities available-for-sale, at fair value	14,722	17,494
Loans receivable held for sale, at lower of cost or fair value	6,231	22,370
Loans receivable held for investment, net of allowance of $2,929 and $4,069	355,556	334,851
Accrued interest receivable	1,143	1,073
Federal Home Loan Bank (FHLB) stock	2,916	2,916
Office properties and equipment, net	2,242	2,406
Bank owned life insurance	3,047	2,994
Deferred tax assets, net	5,045	5,110
Investment in affordable housing limited partnership	342	537
Real estate owned (REO)	833	878
Other assets	669	856
Total assets	**$ 409,397**	**$ 413,704**
Liabilities and stockholders' equity		
Liabilities:		
Deposits	$ 281,414	$ 291,290
FHLB advances	70,000	65,000
Junior subordinated debentures	5,100	5,100
Advance payments by borrowers for taxes and insurance	1,055	1,071
Accrued expenses and other liabilities	3,392	3,512
Total liabilities	**360,961**	**365,973**
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Preferred stock, $.01 par value, authorized 1,000,000 shares; none issued or outstanding		
Common stock, $.01 par value, voting, authorized 50,000,000 shares at December 31, 2018 and December 31, 2017; issued 21,280,228 shares at December 31, 2018 and 21,312,649 shares at December 31, 2017; outstanding 18,662,402 shares at December 31, 2018 and 18,694,823 shares at December 31, 2017	213	213
Common stock, $.01 par value, non-voting, authorized 25,000,000 shares at December 31, 2018 and December 31, 2017; issued and outstanding 8,756,396 shares at December 31, 2018 and December 31, 2017	87	87
Additional paid-in capital	46,141	46,117
Retained earnings	8,631	7,816
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,027)	(1,095)
Accumulated other comprehensive loss	(283)	(81)
Treasury stock-at cost, 2,617,826 shares at December 31, 2018 and at December 31, 2017	(5,326)	(5,326)

Total stockholders' equity		**48,436**		**47,731**
Total liabilities and stockholders' equity	**$**	**409,397**	**$**	**413,704**

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Income and Comprehensive Income

	Year Ended December 31,	
	2018	2017
	(In thousands, except per share)	
Interest Income:		
Interest and fees on loans receivable	$ 14,279	$ 15,397
Interest on mortgage-backed securities and other securities	413	318
Other interest income	545	572
Total interest income	15,237	16,287
Interest Expense:		
Interest on deposits	3,089	2,398
Interest on borrowings	1,840	1,950
Total interest expense	4,929	4,348
Net interest income before loan loss provision recapture	10,308	11,939
Loan loss provision recapture	1,254	1,100
Net interest income after loan loss provision recapture	11,562	13,039
Non-Interest Income:		
Service charges	449	446
Net gain on sales of loans	70	560
CDFI grant	233	227
Income from litigation settlement		1,183
Other	113	114
Total non-interest income	865	2,530
Non-Interest Expense:		
Compensation and benefits	7,055	7,092
Occupancy expense	1,278	1,278
Information services	822	818
Professional services	653	716
Office services and supplies	289	302
Loan related expenses	167	205
Corporate insurance	147	196
Amortization of investment in affordable housing limited partnership	195	195
Other	950	1,035
Total non-interest expense	11,556	11,837
Income before income taxes	871	3,732
Income tax expense	56	1,863
Net income	$ 815	$ 1,869
Other comprehensive loss, net of tax:		
Unrealized losses on securities available-for-sale arising during the period	$ (292)	$ (98)
Income tax benefit	90	54

Other comprehensive loss, net of tax		(202)		(44)
Comprehensive income	$	613	$	1,825
Earnings per common share-basic	$	0.03	$	0.07
Earnings per common share-diluted	$	0.03	$	0.07

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except share and per share)

	Common Shares Issued	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned ESOP shares	Accumulated Other Comprehensive Loss, Net	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2016	**30,039,043**	**$ 299**	**$ 45,819**	**$ 6,013**	**$ (1,176)**	**$ (103)**	**$ (5,326)**	**$ 45,526**
Net income	-	-	-	1,869	-	-	-	1,869
Common stock issued for services	30,002	1	52	-	-	-	-	53
Release of unearned ESOP shares	-	-	23	-	81	-	-	104
Change in unrealized loss on securities available-for-sale, net of tax	-	-	-	-	-	(44)	-	(44)
Reclassification from accumulated other comprehensive loss to retained earnings	-	-	-	(66)	-	66	-	-
Restricted stock compensation expense	-	-	184	-	-	-	-	184
Stock-based compensation expense	-	-	39	-	-	-	-	39
Balance at December 31, 2017	**30,069,045**	**300**	**46,117**	**7,816**	**(1,095)**	**(81)**	**(5,326)**	**47,731**
Net income	-	-	-	815	-	-	-	815
Common stock issued for services	18,906	-	45	-	-	-	-	45
Common stock repurchased for tax withholdings	(51,327)	-	(108)	-	-	-	-	(108)
Release of unearned ESOP shares	-	-	12	-	68	-	-	80
Change in unrealized loss on securities available-for-sale, net of tax	-	-	-	-	-	(202)	-	(202)
Restricted stock compensation expense	-	-	36	-	-	-	-	36
Stock-based compensation expense	-	-	39	-	-	-	-	39
Balance at December 31, 2018	**30,036,624**	**$ 300**	**$ 46,141**	**$ 8,631**	**$ (1,027)**	**$ (283)**	**$ (5,326)**	**$ 48,436**

See accompanying notes to consolidated financial statements.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 815	$ 1,869
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Loan loss provision recaptures	(1,254)	(1,100)
Provision for losses on REO	45	80
Depreciation	241	256
Net amortization of deferred loan origination costs	605	306
Net amortization of premiums on mortgage-backed securities	36	34
Amortization of investment in affordable housing limited partnership	195	195
Stock-based compensation expense	75	223
Stocks granted to directors	45	53
ESOP compensation expense	80	104
Earnings on bank owned life insurance	(53)	(54)
Originations of loans receivable held for sale	(20,288)	(110,829)
Proceeds from sales and repayments of loans receivable held for sale	19,626	98,356
Gain on sale of loans receivable held for sale	(70)	(560)
Changes in operating assets and liabilities		
Net change in deferred taxes	155	1,851
Net change in accrued interest receivable	(70)	105
Net change in other assets	187	332
Net change in advance payments by borrowers for taxes and insurance	(16)	243
Net change in accrued expenses and other liabilities	(120)	(1,690)
Net cash provided by (used in) operating activities	234	(10,226)
Cash flows from investing activities:		
Net change in loans receivable held for investment	(3,185)	59,742
Purchase of loans receivable held for investment	-	(24,640)
Purchase of available-for-sale securities	-	(6,677)
Principal payments on available-for-sale securities	2,444	2,253
Purchase of FHLB stock	-	(343)
Additions to office properties and equipment	(77)	(183)
Net cash (used in) provided by investing activities	(818)	30,152
Cash flows from financing activities:		
Net change in deposits	(9,876)	3,863
Proceeds from FHLB advances	32,500	29,500
Repayments on FHLB advances	(27,500)	(49,500)
Payment for tax withholding for vesting of restricted stock	(108)	-
Net cash used in financing activities	(4,984)	(16,137)
Net change in cash and cash equivalents	(5,568)	3,789
Cash and cash equivalents at beginning of the year	22,219	18,430
Cash and cash equivalents at end of the year	$ 16,651	$ 22,219
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 4,898	$ 4,199

Cash paid for income taxes		-		20
Supplemental disclosures of non-cash investing and financing activities:				
Transfers of loans receivable held for investment to REO	$	-	$	958
Transfers of loans receivable held for investment to loans receivable held for sale		-		9,337
Transfers of loans receivable held for sale to loans receivable held for investment		16,871		-

See accompanying notes to consolidated financial statements.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 1 Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Broadway Financial Corporation (the "Company") is a Delaware corporation primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the "Bank"). The Bank's business is that of a financial intermediary and consists primarily of attracting deposits from the general public and using such deposits, together with borrowings and other funds, to make mortgage loans secured by residential and commercial real estate located in Southern California. At December 31, 2018, the Bank operated two retail-banking offices in Los Angeles, California and one in the nearby city of Inglewood, California. The Bank is subject to significant competition from other financial institutions, and is also subject to regulation by certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Broadway Federal Bank, f.s.b. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

To prepare consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ from these estimates. The allowance and provision for loan losses, specific reserves for impaired loans, fair value of real estate owned, deferred tax asset valuation allowance, and fair values of investment securities and other financial instruments are particularly subject to change.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash items in the process of collection, amounts due from correspondent banks and the Federal Reserve Bank, and interest-bearing deposits in other banks with initial terms of ninety days or less. The Company may be required to maintain reserve and clearing balances with the Federal Reserve Bank under the Federal Reserve Act. The reserve and clearing requirement balance was $0 at December 31, 2018. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other banks, deferred income taxes and other assets and liabilities.

Investment Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and the intent and ability of management to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Loans Receivable Held for Sale

The Bank originates loans for sale, but may, from time-to-time, decide to sell certain loans that are held for investment in order to manage loan concentrations. When a decision is made to sell a loan(s), such loan(s) is transferred from held-for-investment portfolio to held-for-sale portfolio at the lower of cost or fair value. If a reduction in value is required at time of the transfer, a charge-off is recorded against the allowance for loan losses ("ALLL"). Any subsequent decline in value of the loan(s) is recorded as a valuation allowance with a corresponding charge to non-interest expense.

Transfers of loans are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been legally isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right), to pledge or exchange the transferred assets, and provides no more than a trivial benefit to the Bank, and (3) the Bank does not maintain effective control over the transferred assets.

Loans receivable held for sale are generally sold with servicing rights released. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold. When loans receivable held for sale are sold, existing deferred loan fees or costs are an adjustment of the gain or loss on sale.

Loans Receivable Held for Investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of allowance for loan losses, deferred loan fees and costs and unamortized premiums and discounts. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, premiums and discounts are deferred, and recognized in income using the level-yield method without anticipating prepayments.

Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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Concentration of Credit Risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Company's lending activities are predominantly in real estate loans that are secured by properties located in Southern California and many of the borrowers reside in Southern California. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy and real estate market in the Southern California area.

The Company has a significant concentration of deposits with a long-time customer that accounted for approximately 11% of its deposits as of December 31, 2018. The Company expects to maintain this relationship with the customer for the near term.

Loans Purchased

The Bank purchases or participates in loans originated by other institutions from time to time. Subject to regulatory restrictions applicable to savings institutions, the Bank's current loan policies allow all loan types to be purchased. The determination to purchase specific loans or pools of loans is based upon the Bank's investment needs and market opportunities and is subject to the Bank's underwriting policies, which require consideration of the financial condition of the borrower and the appraised value of the property, among other factors. Premiums or discounts incurred upon the purchase of loans are recognized in income using the interest method over the estimated life of the loans, adjusted for actual prepayments. No loans were purchased during 2018 compared to the purchases of $24.6 million of single family loans at par in 2017.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent cash recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, could be charged off. In addition, the OCC and FDIC periodically review the allowance for loan losses as an integral part of their examination process. These agencies may require an increase in the allowance for loan losses based on their judgments of the information available to them at the time of their examinations.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDR") and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the

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circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, either a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or alternatively a charge-off is taken to record the loan at the fair value of the collateral, less estimated selling costs, if repayment is expected solely from the collateral.

TDRs are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of any necessary additional charge-off based on internal analyses and appraisals of the underlying collateral securing these loans.

The general component covers loans that are collectively evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment with the use of a loss migration analysis and is based on the actual loss history experienced by the Company over the most recent five years. This actual loss experience is supplemented with information about other current economic factors based on the risks present for each portfolio segment. These current economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified: one-to-four units ("single family"), five or more units ("multi-family"), commercial real estate, church, construction, commercial loans, and consumer loans. The risks in our various portfolio segments are as follows:

Single Family Subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact on borrowers' ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

Multi-Family Subject to adverse various market conditions that cause a decrease in market value or lease rates; change in personal funding sources for tenants; oversupply of units in a specific region; a shift in population; reputational risks.

Commercial Real Estate Subject to adverse conditions in the local economy which may lead to reduced cash flows due to vacancies and reduced rental rates; decreases in the value of underlying collateral.

Church Subject to adverse economic and employment conditions leading to reduced cash flows from members' donations and offerings; the stability, quality and popularity of church leadership.

Construction Subject to adverse conditions in the local economy which may lead to reduced demand for new commercial, multi-family or single family buildings or reduced lease or sale opportunities once the building is complete.

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Commercial Subject to industry and economic conditions including decreases in product demand.

Consumer Subject to adverse employment conditions in the local economy, which may lead to higher default rates.

Real Estate Owned

Assets acquired through, or instead of, loan foreclosure are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through a provision that is charged to non-interest expense. Operating costs after acquisition are expensed as incurred.

Office Properties and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the lease term or the estimated useful life of the asset, whichever is shorter.

Federal Home Loan Bank (FHLB) stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income when declared.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on a former key executive. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Investment in Affordable Housing Limited Partnership

The Bank owns a less than 5% interest in an affordable housing limited partnership. The investment is recorded using the cost method and is being amortized over the life of the related tax credits. The tax credits are being recognized in income tax expense in the consolidated financial statements to the extent they are utilized on the Company's income tax returns. The investment is reviewed for impairment on an annual basis or on an interim basis if an event occurs that would trigger potential impairment.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents

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the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Revenue Recognition

ASC 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires the Company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. The Company's revenue stream that is within the scope of Topic 606 is primarily service charges on deposit accounts, which consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transaction based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Restricted Stock Units

The Company may grant cash-settled restricted stock units ("RSUs") to its employees. Compensation cost is recognized over the vesting period based on the fair value of the award, which is re-measured at each reporting period. The fair value of the award is classified as a liability in the consolidated statements of financial condition.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount

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of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest related to income tax matters in interest expense and penalties related to tax matters in income tax expense.

Retirement Plans

Employee 401(k) expense is the amount of matching contributions made by the Company.

Employee Stock Ownership Plan

The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest.

Earnings Per Common Share

Basic earnings per share of common stock is computed pursuant to the two-class method by dividing net income available to common stockholders less dividends paid on participating securities (unvested shares of restricted common stock) and any undistributed earnings attributable to participating securities by the weighted average common shares outstanding during the period. The weighted average common shares outstanding includes the weighted average number of shares of common stock outstanding less the weighted average number of unvested shares of restricted common stock. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per share of common stock includes the dilutive effect of unvested stock awards and additional potential common shares issuable under stock options.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available-for-sale, net of tax, which are also recognized as separate components of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that any such matters existed as of the balance sheet date that will have a material effect on the consolidated financial statements.

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Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair values are estimated using relevant market information and other assumptions, as more fully disclosed in Note 5. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments

The Company operates as a single segment. The operating information used by management to assess performance and make operating decisions about the Company is the consolidated financial data presented in these financial statements. For the years ended 2018 and 2017, the Company had one active operating subsidiary, Broadway Federal Bank, f.s.b. The Company has determined that banking is its one reportable business segment.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year consolidated net income or stockholders' equity.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU 2014-09 supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. On January 1, 2018, the Company adopted ASU No. 2014-09 and all subsequent ASUs that modified Topic 606. The adoption did not have a material impact on the measurement or recognition of revenue; as such, a modified retrospective cumulative effect adjustment to beginning retained earnings was not deemed necessary. Results for reporting periods beginning after

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January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. The Company's revenue streams that are within the scope of Topic 606 are primarily services charges on deposit accounts, which consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01 (i) amends existing guidance that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). It eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption of this standard did not have a material impact on the Company's consolidated financial statements. In accordance with this standard, the Company measured the fair value of its financial assets and financial liabilities as of December 31, 2018 using an exit price notion (see Note 5 Fair Value).

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". ASU 2016-15 provides guidance on the classification of certain cash receipts and payments on the consolidated statement of cash flows in order to reduce diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the consolidated statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, where the guidance should be applied using a retrospective transition method to each period presented. Early adoption is permitted. Adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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In February 2018, the FASB issued Accounting Standards Update ("ASU") 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220)", which allows an entity to elect a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act. The amount of that reclassification should include the effect of changes of tax rate on the deferred tax amount, any related valuation allowance and other income tax effects on the items in AOCI. The standard requires an entity to state if an election to reclassify the tax effect to retained earnings is made along with the description of other income tax effects that are reclassified from AOCI. The guidance is effective for public business entities for annual periods beginning on or after December 15, 2018 and interim periods within those annual periods with early adoption permitted. The Company early adopted this amendment and has elected to reclassify $66 thousand from AOCI to retained earnings at December 31, 2017.

Recent Accounting Pronouncements Yet to Be Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which is intended to increase transparency and comparability in the accounting for lease transactions. Under ASU 2016-02, lessees will be required to recognize all leases longer than twelve months on the Consolidated Statements of Financial Condition as lease assets and lease liabilities and make quantitative and qualitative disclosures regarding key information about leasing arrangements. Under the new guidance, lessor accounting is largely unchanged. These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-02 will be effective for us on January 1, 2019 and will require transition using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. Based on leases outstanding at September 30, 2018, the Company does not expect the standard to have a material impact on the Company's Consolidated Statements of Income or Cash Flows, but does anticipate recording a liability of approximately $1.0 million as of March 31, 2019 for the remaining obligation under its lease agreements and a corresponding right-of-use asset in the Consolidated Statements of Financial Condition, which will have a minor impact on the Bank's regulatory capital ratios.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. For public business entities that meet the definition of an SEC filer, the standard will be effective for fiscal years beginning after Dec. 15, 2019, including interim periods in those fiscal years. All entities may early adopt for fiscal years beginning after Dec. 15, 2018, including interim periods in those fiscal years. For debt securities with other-than-temporary impairment, the guidance will be applied prospectively. Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company has begun its implementation efforts by identifying key interpretive issues, assessing its processes and identifying the system requirements against the new guidance to

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determine what modifications may be required. While the Company is still evaluating the overall impact on the new standard on its consolidated financial statements, the Company expects the adoption will result in an increase to the allowance for loan losses balance.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The ASU was issued to improve the effectiveness of disclosures surrounding fair value measurements. The ASU removes numerous disclosures from Topic 820 including; transfers between level 1 and 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation process for level 3 fair value measurements. The ASU also modified and added disclosure requirements in regards to changes in unrealized gains and losses included in other comprehensive income, as well as the range and weighted average of unobservable inputs for level 3 fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The guidance is not expected to have a significant impact on the Company's consolidated financial statements.

Note 2 Securities

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolios at December 31, 2018 and December 31, 2017 and the corresponding amounts of unrealized gains (losses) which are recognized in accumulated other comprehensive income:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2018:				
Federal agency mortgage-backed securities	$ 9,575	$ 88	$ (155)	$ 9,508
Federal agency debt	5,317	-	(103)	5,214
Total available-for-sale securities	$ 14,892	$ 88	$ (258)	$ 14,722
December 31, 2017:				
Federal agency mortgage-backed securities	$ 11,877	$ 168	$ (37)	$ 12,008
Federal agency debt	5,495	2	(11)	5,486
Total available-for-sale securities	$ 17,372	$ 170	$ (48)	$ 17,494

At December 31, 2018, the Bank had three federal agency debt securities with total amortized cost of $5.3 million and estimated total fair value of $5.2 million and an estimated average remaining life of 3.9 years. The Bank also had 24 federal agency mortgage-backed securities with total amortized cost of $9.6 million, estimated total fair value of $9.5 million and an estimated average remaining life of 4.5 years. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 2018, there were no securities pledged to secure public deposits since those public deposits are under $250 thousand which are fully insured by FDIC. At December 31, 2017, securities pledged to secure public deposits had a carrying amount of $526 thousand. At December 31, 2018 and 2017, there were no holdings of

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securities by any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

There were no sales of securities during the years ended December 31, 2018 and 2017.

The Bank held ten securities with unrealized losses at December 31, 2018, compared to six securities with unrealized losses at December 31, 2017. Securities in unrealized loss positions are analyzed as part of our ongoing assessment of other-than-temporary impairment. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. All of the Bank's securities were issued by the federal government or its agencies. The unrealized losses on our available-for-sale securities at December 31, 2018 were primarily caused by movements in market interest rates subsequent to the purchase of such securities. We do not consider these unrealized losses to be other than temporary impairment.

Note 3 Loans Receivable Held for Sale

Loans receivable held for sale at December 31, 2018 totaled $6.2 million and consisted of multi-family loans. As part of the Bank's loan concentration risk management program, $16.9 million of multi-family loans were transferred from the held-for-sale portfolio to the held-for-investment portfolio during the year ended December 31, 2018. The Bank also allocated $20.2 million, or 20%, of its total loan originations as held-for-sale and completed sales of $19.3 million of multi-family loans during the year ended December 31, 2018 for a total gain of $81 thousand. Loan repayments totaled $159 thousand during the year 2018. There were $22.4 million loans held for sale at December 31, 2017.

Note 4 Loans Receivable Held for Investment

Loans receivable held for investment were as follows as of the periods indicated:

	December 31, 2018	December 31, 2017
	(In thousands)	
Real estate:		
Single family	$ 91,835	$ 111.085
Multi-family	231,870	187,455
Commercial real estate	5,802	6,089
Church	25,934	30,848
Construction	1,876	1,678
Commercial other	226	192
Consumer	5	7
Gross loans receivable before deferred loan costs and premiums	357,548	337,354
Unamortized net deferred loan costs and premiums	937	1,566
Gross loans receivable	358,485	338,920
Allowance for loan losses	(2,929)	(4,069)
Loans receivable, net	$ 355,556	$ 334,851

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The following tables present the activity in the allowance for loan losses by loan type for the periods indicated:

	For the year ended December 31, 2018							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial other	Consumer	Total
	(In thousands)							
Beginning balance	$ 594	$ 2,300	$ 71	$ 1,081	$ 17	$ 6	$ -	$ 4,069
Provision for (recapture of) loan losses	(225)	(420)	(19)	(592)	2	-	-	(1,254)
Recoveries	-	-	-	114	-	-	-	114
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	$ 369	$ 1,880	$ 52	$ 603	$ 19	$ 6	$ -	$ 2,929

	For the year ended December 31, 2017							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial other	Consumer	Total
	(In thousands)							
Beginning balance	$ 367	$ 2,659	$ 215	$ 1,337	$ 8	$ 17	$ -	$ 4,603
Provision for (recapture of) loan losses	197	(359)	(144)	(792)	9	(11)	-	(1,100)
Recoveries	30	-	-	536	-	-	-	566
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	$ 594	$ 2,300	$ 71	$ 1,081	$ 17	$ 6	$ -	$ 4,069

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

The following tables present the balance in the allowance for loan losses and the recorded investment (unpaid contractual principal balance less charge-offs, less interest applied to principal, plus unamortized deferred costs and premiums) by loan type and based on impairment method as of and for the periods indicated:

	December 31, 2018							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial other	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 53	$ -	$ -	$ 170	$ -	$ 4	$ -	$ 227
Collectively evaluated for impairment	316	1,880	52	433	19	2	-	2,702
Total ending allowance balance	$ 369	$ 1,880	$ 52	$ 603	$ 19	$ 6	$ -	$ 2,929
Loans:								
Loans individually evaluated for impairment	$ 610	$ 323	$ -	$ 5,383	$ -	$ 64	$ -	$ 6,380
Loans collectively evaluated for impairment	91,567	232,986	5,800	19,713	1,872	162	5	352,105
Total ending loans balance	$ 92,177	$ 233,309	$ 5,800	$ 25,096	$ 1,872	$ 226	$ 5	$ 358,485

	December 31, 2017							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial other	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 100	$ 1	$ -	$ 479	$ -	$ 5	$ -	$ 585
Collectively evaluated for impairment	494	2,299	71	602	17	1	-	3,484
Total ending allowance balance	$ 594	$ 2,300	$ 71	$ 1,081	$ 17	$ 6	$ -	$ 4,069

Loans:								
Loans individually evaluated for impairment	$ 627	$ 333	$ -	$ 8,280	$ -	$ 65	$ -	$ 9,305
Loans collectively evaluated for impairment	110,897	188,585	6,096	22,232	1,671	127	7	329,615
Total ending loans balance	$ 111,524	$ 188,918	$ 6,096	$ 30,512	$ 1,671	$ 192	$ 7	$ 338,920

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

The following table presents information related to loans individually evaluated for impairment by loan type as of the periods indicated:

	December 31, 2018			December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(In thousands)					
With no related allowance recorded:						
Multi-family	$ 323	$ 323	$ -	$ -	$ -	$ -
Church	4,666	2,803	-	5,140	3,291	-
With an allowance recorded:						
Single family	610	610	53	627	627	100
Multi-family	-	-	-	333	333	1
Church	2,580	2,580	170	5,028	4,989	479
Commercial other	64	64	4	65	65	5
Total	$ 8,243	$ 6,380	$ 227	$ 11,193	$ 9,305	$ 585

The recorded investment in loans excludes accrued interest receivable due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

The following tables present the monthly average of loans individually evaluated for impairment by loan type and the related interest income for the periods indicated:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	$ 618	$ 30	$ 636	$ 28
Multi-family	329	23	589	44
Commercial real estate	-	-	305	104
Church	7,893	398	9,363	693
Commercial other	64	4	65	6
Total	$ 8,904	$ 455	$ 10,958	$ 875

Cash-basis interest income recognized represents cash received for interest payments on accruing impaired loans and interest recoveries on non-accrual loans that were paid off. Interest payments collected on non-accrual loans are characterized as payments of principal rather than payments of the outstanding accrued interest on the loans until the remaining principal on the non-accrual loans is considered to be fully collectible or paid off. When a loan is

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

returned to accrual status, the interest payments that were previously applied to principal are deferred and amortized over the remaining life of the loan. Foregone interest income that would have been recognized had loans performed in accordance with their original terms amounted to $280 thousand and $126 thousand for the years ended December 31, 2018 and 2017, respectively, and were not included in the consolidated results of operations.

The following tables present the aging of the recorded investment in past due loans by loan type as of the periods indicated:

	December 31, 2018					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
	(In thousands)					
Loans receivable held for investment:						
Single family	$ 35	$ -	$ -	$ 35	$ 92,142	$ 92,177
Multi-family	-	-	-	-	233,309	233,309
Commercial real estate	-	-	-	-	5,800	5,800
Church	-	-	-	-	25,096	25,096
Construction	-	-	-	-	1,872	1,872
Commercial other	-	-	-	-	226	226
Consumer	-	-	-	-	5	5
Total	$ 35	$ -	$ -	$ 35	$ 358,450	$ 358,485

	December 31, 2017					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
	(In thousands)					
Loans receivable held for investment:						
Single family	$ -	$ 50	$ -	$ 50	$ 111,474	$ 111,524
Multi-family	-	-	-	-	188,918	188,918
Commercial real estate	-	-	-	-	6,096	6,096
Church	341	-	-	341	30,171	30,512
Construction	-	-	-	-	1,671	1,671
Commercial other	-	-	-	-	192	192
Consumer	-	-	-	-	7	7
Total	$ 341	$ 50	$ -	$ 391	$ 338,529	$ 338,920

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

The following table presents the recorded investment in non-accrual loans by loan type as of the periods indicated:

	December 31, 2018	December 31, 2017
	(In thousands)	
Loans receivable held for investment:		
Church	$ 911	$ 1,766
Total non-accrual loans	$ 911	$ 1,766

There were no loans 90 days or more delinquent that were accruing interest as of December 31, 2018 or December 31, 2017.

Troubled Debt Restructurings

At December 31, 2018, loans classified as troubled debt restructurings ("TDRs") totaled $6.4 million, of which $591 thousand were included in non-accrual loans and $5.8 million were on accrual status. At December 31, 2017, loans classified as TDRs totaled $8.9 million, of which $1.4 million were included in non-accrual loans and $7.5 million were on accrual status. The Company has allocated $227 thousand and $585 thousand of specific reserves for accruing TDRs as of December 31, 2018 and 2017, respectively. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or loans that have complied with the terms of their restructured agreements for a satisfactory period of time and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual status can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments, as modified. A well-documented credit analysis that supports a return to accrual status based on the borrower's financial condition and prospects for repayment under the revised terms is also required. As of December 31, 2018 and 2017, the Company had no commitment to lend additional amounts to customers with outstanding loans that are classified as TDRs. No loans were modified during the years ended December 31, 2018 and 2017.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. For single family residential, consumer and other smaller balance homogenous loans, a credit grade is established at inception, and generally only adjusted based on performance. Information about payment status is disclosed elsewhere herein. The Company analyzes all other loans individually by classifying the loans as to credit risk. This analysis is performed at least on a quarterly basis. The Company uses the following definitions for risk ratings:

- ***Watch.*** Loans classified as watch exhibit weaknesses that could threaten the current net worth and paying capacity of the obligors. Watch graded loans are generally performing and are not more than 59 days past due. A watch rating is used when a material deficiency exists but correction is anticipated within an acceptable time frame.

- ***Special Mention.*** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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- ***Substandard.*** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

- ***Doubtful.*** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

- ***Loss.*** Loans classified as loss are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Pass rated loans are generally well protected by the current net worth and paying capacity of the obligor and/or by the value of the underlying collateral. Pass rated loans are not more than 59 days past due and are generally performing in accordance with the loan terms. Based on the most recent analysis performed, the risk categories of loans by loan type as of the periods indicated were as follows:

	December 31, 2018					
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Single family	$ 92,132	$ -	$ 35	$ 10	$ -	$ -
Multi-family	232,642	-	-	667	-	-
Commercial real estate	5,800	-	-	-	-	-
Church	19,678	672	-	4,746	-	-
Construction	1,872	-	-	-	-	-
Commercial other	162	-	-	64	-	-
Consumer	5	-	-	-	-	-
Total	$ 352,291	$ 672	$ 35	$ 5,487	$ -	$ -

	December 31, 2017					
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Single family	$ 111,513	$ -	$ -	$ 11	$ -	$ -
Multi-family	187,946	-	-	972	-	-
Commercial real estate	5,974	122	-	-	-	-
Church	24,474	691	-	5,347	-	-
Construction	1,671	-	-	-	-	-
Commercial other	127	-	-	65	-	-
Consumer	7	-	-	-	-	-

Total	$	331,712	$	813	$	-	$	6,395	$	-	$	-

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Note 5 Fair Value

The Company used the following methods and significant assumptions to estimate fair value:

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans that are collateral dependent is generally based upon the fair value of the collateral, which is obtained from recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Assets acquired through or by transfer in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated every nine months. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, an independent third-party licensed appraiser reviews the appraisals for accuracy and reasonableness, reviewing the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

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December 31, 2018 and 2017

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
At December 31, 2018:				
Securities available-for-sale federal agency mortgage-backed	$ -	$ 9,508	$ -	$ 9,508
Securities available-for-sale federal agency debt	1,979	3,235	-	5,214
At December 31, 2017:				
Securities available-for-sale federal agency mortgage-backed	$ -	$ 12,008	$ -	$ 12,008
Securities available-for-sale federal agency debt	1,976	3,510	-	5,486

There were no transfers between Level 1, Level 2, or Level 3 during the years ended December 31, 2018 and 2017.

Assets Measured on a Non-Recurring Basis

Assets are considered to be reflected at fair value on a non-recurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the statement of condition. Generally, a non-recurring valuation is the result of the application of other accounting pronouncements that require assets to be assessed for impairment or recorded at the lower of cost or fair value.

The following table provides information regarding the carrying values of our assets measured at fair value on a non-recurring basis as of the periods indicated. The fair value measurement for all of these assets falls within Level 3 of the fair value hierarchy.

	December 31, 2018	December 31, 2017
	(In thousands)	
Impaired loans carried at fair value of collateral	$ 591	$ 742
Real estate owned	833	878

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

The following table provides information regarding losses recognized on assets measured at fair value on a non-recurring basis for the years ended December 31, 2018 and 2017.

	For the year ended December 31,	
	2018	2017
	(In thousands)	
Impaired loans carried at fair value of collateral	$ -	$ -
Real estate owned	45	80
Total	$ 45	$ 80

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2018 and 2017:

	Valuation Technique(s)	Unobservable Input(s)	Range	Weighted Average
December 31, 2018:				
Impaired loans	Third Party Appraisals	Adjustment for differences between the comparable sales	3% to 1%	2.83%
Real estate owned church	Third Party Appraisals	Adjustment for differences between the comparable sales	11%	10.85%
December 31, 2017:				
Impaired loans	Third Party Appraisals	Adjustment for differences between the comparable sales	16% to 7%	4%
Real estate owned church	Third Party Appraisals	Adjustment for differences between the comparable sales	6%	6%

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Fair Values of Financial Instruments

The carrying amounts and estimated fair values of financial instruments as of the periods indicated were as follows:

	Carrying Value	Fair Value Measurements at December 31, 2018			
		Level 1	Level 2	Level 3	Total
		(In thousands)			
Financial Assets:					
Cash and cash equivalents	$ 16,651	$ 16,651	$ -	$ -	$ 16,651
Securities available-for-sale	14,722	1,979	12,743	-	14,722
Loans receivable held for sale	6,231	-	6,270	-	6,270
Loans receivable held for investment (1)	355,556	-	-	354,792	354,792
Accrued interest receivable	1,143	78	43	1,022	1,143
Financial Liabilities:					
Deposits	$ 281,414	$ -	$ 269,418	$ -	$ 269,418
Federal Home Loan Bank advances	70,000	-	69,933	-	69,933
Junior subordinated debentures	5,100	-	-	4,481	4,481
Accrued interest payable	334	-	324	10	334

	Carrying Value	Fair Value Measurements at December 31, 2017			
		Level 1	Level 2	Level 3	Total
		(In thousands)			
Financial Assets:					
Cash and cash equivalents	$ 22,219	$ 22,219	$ -	$ -	$ 22,219
Securities available-for-sale	17,494	1,976	15,518	-	17.494
Loans receivable held for sale	22,370	-	22,626	-	22,626
Loans receivable held for investment	334,851	-	-	333,231	333,231
Accrued interest receivable	1,073	58	91	924	1,073
Federal Home Loan Bank stock	2,916	2,916	-	-	2,916
Financial Liabilities:					
Deposits	$ 291,290	$ -	$ 280,761	$ -	$ 280,761
Federal Home Loan Bank advances	65,000	-	64,887	-	64,887
Junior subordinated debentures	5,100	-	-	4,503	4,503
Accrued interest payable	304	-	296	8	304

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(1) The estimated value of loans held for investment for December 31, 2018 reflects an exit price assumption. The December 31, 2017 fair value estimate is not based on an exit price assumption.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Note 6 Office Properties and Equipment, net

Year-end office properties and equipment were as follows:

	2018	2017
	(In thousands)	
Land	$ 572	$ 572
Office buildings and improvements	3,264	3,203
Furniture, fixtures and equipment	1,794	1,786
	5,630	5,561
Less accumulated depreciation	(3,388)	(3,155)
Office properties and equipment, net	$ 2,242	$ 2,406

Depreciation expense was $241 thousand and $256 thousand for the years 2018 and 2017, respectively.

At December 31, 2018, the Company was obligated through 2021 under various non-cancelable operating leases on buildings and land used for office space and banking purposes. These operating leases contain escalation clauses which provide for increased rental expense, based primarily on increases in real estate taxes and cost-of-living-indices. The Company also leases certain office equipment. Rent expense under the operating leases was $593 thousand for 2018 and $587 thousand for 2017.

Minimum noncancelable lease commitments, before considering renewal options that generally are present, are as follows:

	Premises	Equipment	Total
		(In thousands)	
Year ending December 31:			
2019	$ 481	$ 35	$ 516
2020	494	35	529
2021	167	15	182
Total	$ 1,142	$ 85	$ 1,227

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Note 7 Deposits

Deposits are summarized as follows:

	December 31,	
	2018	2017
	(In thousands)	
NOW account and other demand deposits	$ 10,307	$ 11,982
Non-interest bearing demand deposits	22,877	22,469
Money market deposits	29,948	68,019
Passbook	45,718	38,031
Certificates of deposit	172,564	150,789
Total	$ 281,414	$ 291,290

The Bank accepts two types of deposits from a deposit placement service called the Certificate of Deposit Account Registry Service ("CDARS"). Reciprocal deposits are the Bank's own retail deposits in amounts in excess of the insured limits. The CDARS program allows banks to place their customers' funds in FDIC-insured certificates of deposit at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network. These deposits totaled $33.7 million and $9.5 million at December 31, 2018 and 2017, respectively and are not considered to be brokered deposits.

One-way deposits are also available using the CDARS program. With the one-way program, the Bank accepts deposits from CDARS even though there is no customer account involved. These deposits totaled $32.6 million and $43.3 million at December 31, 2018 and 2017, respectively.

Brokered deposits (non-CDARS) totaled $9.9 million at December 31, 2018. The Bank did not have any brokered deposits at December 31, 2017.

Scheduled maturities of certificates of deposit for the next five years are as follows:

Maturity	Amount
	(In thousands)
2019	$ 133,654
2020	34,819
2021	2,120
2022	1,712
2023	218
Thereafter	41
	$ 172,564

Certificates of deposit of $250 thousand or more totaled $33.9 million and $16.7 million at December 31, 2018 and 2017, respectively.

Deposits from principal officers, directors, and their affiliates totaled $1.8 million and $1.6 million at December 31, 2018 and 2017, respectively.

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Note 8 Federal Home Loan Bank Advances

The following table summarizes information relating to FHLB advances at or for the periods indicated:

	At or For the Year Ended	
	2018	**2017**
	(Dollars in thousands)	
FHLB Advances:		
Average balance outstanding during the year	$ 74,729	$ 89,279
Maximum amount outstanding at any month-end during the year	$ 98,000	$ 104,000
Balance outstanding at end of year	$ 70,000	$ 65,000
Weighted average interest rate at end of year	2.51%	1.86%
Average cost of advances during the year	2.13%	1.97%
Weighted average contractual maturity (in months)	24	18

Each advance is payable at its maturity date, with a prepayment penalty. The advances were collateralized by $151.0 million and $128.4 million of first mortgage loans at year-end 2018 and 2017, respectively, under a blanket lien arrangement. Based on this collateral, the Company's holdings of FHLB stock and a general borrowing limit of 30% of total assets, the Company is eligible to borrow up to an additional $54.6 million at year-end 2018.

Required payments over the next five years are as follows:

	Amount
	(In thousands)
2019	$ 8,000
2020	29,500
2021	22,500
2022	5,000
2023	5,000
	$ 70,000

Note 9 Junior Subordinated Debentures

On March 17, 2004, the Company issued $6.0 million of Floating Rate Junior Subordinated Debentures (the "Debentures") in a private placement to a trust that was capitalized to purchase subordinated debt and preferred stock of multiple community banks. Interest on the Debentures is payable quarterly at a rate per annum equal to the 3-Month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 5.34% at December 31, 2018. On October 16, 2014, the Company made payments of $900 thousand of principal on Debentures, executed a Supplemental Indenture for the Debentures that extended the maturity of the Debentures to March 17, 2024, and modified the payment terms of the remaining $5.1 million principal amount thereof. The modified terms of the Debentures require quarterly payments of interest only through March 2019 at the original rate of 3-Month LIBOR plus 2.54%. Starting in June 2019, the Company will be required to make quarterly payments of equal amounts of principal, plus interest, until the Debentures are fully amortized on March 17, 2024. The Debentures may be called for redemption at any time by the Company.

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Scheduled principal repayments of junior subordinated debentures over the next six years are as follows:

	Amount (In thousands)
2019	$ 765
2020	1,020
2021	1,020
2022	1,020
2023	1,020
2024	255
	$ 5,100

Note 10 Employee Benefit Plans

Broadway Federal 401(k) Plan

A 401(k) benefit plan allows employee contributions for substantially all employees up to 15% of their compensation, which are matched at a rate equal to 50% of the first 6% of the compensation contributed. Expense totaled $131 thousand and $132 thousand for 2018 and 2017.

ESOP Plan

Employees participate in an Employee Stock Option Plan ("ESOP") after attaining certain age and service requirements. In December 2016, the ESOP purchased 1,493,679 shares of the Company's common stock at $1.59 per share, for a total cost of $2.4 million, of which $1.2 million was funded with a loan from the Company. The loan will be repaid from the Bank's annual discretionary contributions to the ESOP, net of dividends paid, over a period of 20 years. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. When loan payments are made, shares are allocated to each eligible participant based on the ratio of each such participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. Dividends on allocated shares increase participant accounts. Dividends on unallocated shares will be used to repay the loan. At the end of employment, participants will receive shares for their vested balance. Compensation expense related to the ESOP was $80 thousand for 2018 and $104 thousand for 2017.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

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December 31, 2018 and 2017

Shares held by the ESOP were as follows:

	December 31, 2018	December 31, 2017
	(Dollars in thousands)	
Allocated to participants	1,036,809	1,108,382
Committed to be released	10,580	10,752
Suspense shares	646,033	688,870
Total ESOP shares	1,693,422	1,808,004
Fair value of unearned shares	$ 678	$ 1,626

During 2018 and 2017, 43,009 and 40,126 of ESOP shares were released for allocation to participants, respectively. The outstanding balance of unearned ESOP shares at December 31, 2018 and 2017 were $1.0 million and $1.1 million, respectively, which is shown as Unearned ESOP shares in the equity section of the consolidated statements of financial condition.

Note 11 Income Taxes

The Company and its subsidiary are subject to U.S. federal and state income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Income tax expense was as follows:

	2018	2017
	(In thousands)	
Current		
Federal	$ (110)	$ -
State	12	12
Deferred		
Federal	68	1,455
State	86	396
Change in valuation allowance	-	-
Total	$ 56	$ 1,863

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Effective tax rates differ from the federal statutory rate of 21% for the year ended December 31, 2018 and 34% for the year ended December 31, 2017 applied to income before income taxes due to the following:

	2018	2017
	(In thousands)	
Federal statutory rate times financial statement net income	$ 183	$ 1,269
Effect of:		
State taxes, net of federal benefit	77	268
Change in federal rate	-	519
Earnings from bank owned life insurance	(16)	(22)
Low income housing credits	(212)	(212)
Change in valuation allowance	-	-
Other, net	24	41
Total	$ 56	$ 1,863

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Among other items, the Tax Cuts and Jobs Act reduces the federal corporate tax rate to 21% from the existing maximum rate of 35%, effective January 1, 2018. As a result, the Company has recorded a decrease related to its deferred tax assets of $519 thousand, with a corresponding increase to deferred income tax expense of $519 thousand for the year ended December 31, 2017.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Year-end deferred tax assets and liabilities were due to the following:

	2018	2017
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 799	$ -
Real estate owned	65	5
Accrued liabilities	150	173
State income taxes	34	33
Stock compensation	165	182
Net operating loss carryforward	3,887	4,367
Non-accrual loan interest	3	4
Partnership investment	140	101
General business credit	1,661	1,458
Alternative minimum tax credit	151	256
Unrealized appreciation AFS	50	-
Other	28	14
Total deferred tax assets	7,133	6,593
Deferred tax liabilities:		
Section 481 Adjustments to bad debts	(980)	-
Deferred loan fees/costs	(775)	(817)
Allowance for loan losses	-	(276)
Basis difference on fixed assets	(35)	(49)
Net unrealized appreciation on available-for-sale securities	-	(36)
FHLB stock dividends	(266)	(266)
Mortgage servicing rights	(5)	(7)
Prepaid expenses	(27)	(32)
Total deferred tax liabilities	(2,088)	(1,483)
Net deferred tax assets	$ 5,045	$ 5,110

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluated both positive and negative evidence, including the existence of cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and tax planning strategies. Based on this analysis, the Company determined that as of December 31, 2018, no valuation allowance was required on its deferred tax assets, which totaled $5.0 million. As of December 31, 2017, the Company recorded no valuation allowance on its deferred tax assets of $5.1 million.

As of December 31, 2018, the Company has federal net operating loss carryforwards of $8.2 million and California net operating loss carryforwards of $25.3 million, which begin expiring in 2031 through 2037 and 2031 through 2036, respectively. The Company also has federal general business credits of $1.5 million, expiring beginning in 2030 through 2037, and alternative minimum tax credit carryforwards of $119 thousand, which can be carried forward indefinitely.

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Federal income tax laws previously allowed the Company additional bad debt deductions based on the reserve method of computing the federal bad debt deduction. This method of computing the Company's federal bad debt deduction was permitted to be used by the Company until the end of 1987. As of December 31, 1987, the tax bad debt reserve balance totaled $3.0 million. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total approximately $632 thousand at year end 2018 and 2017. If the Bank were liquidated, or otherwise ceases to be a bank, the $3.0 million tax bad debt reserve may need to be recaptured into taxable income and income tax expense would need to be provided.

Prior to 2018, the Company computed its bad debt deduction for income tax purposes under the reserve method. In 2018, the Company requested a change in accounting method used for computing its tax bad debt deduction from the reserve method to the charge-off method as defined under Internal Revenue Code Section 166. Once the IRS has consented to the requested change in accounting method, the Company would compute its tax bad debt deduction under the new method and would recapture its tax bad debt reserve of $4.3 million into taxable income evenly over the next 4 years starting in 2018.

At December 31, 2018 and 2017, the Company had $475 thousand in unrecognized tax benefits. This amount, if recognized, would favorably affect the income tax provision in future periods. The Company expects that the total amount of unrecognized tax benefits may decrease significantly within the next twelve months due to expected settlement with the state taxing authorities. During 2018 and 2017, $5 thousand was accrued during each period for potential interest related to these unrecognized tax benefits.

Federal tax years 2015 through 2018 remain open for the assessment of Federal income tax. With the exception of the issues under protest for the years listed below, California tax years 2014 through 2018 remain open for the assessment of California income tax. The Company is currently under examination by the California Franchise Tax Board ("FTB") for the 2009, 2010, and 2011 tax years. The FTB has proposed adjustments to the Company's California net operating loss carryforwards for items which the Company has established an unrecognized tax benefit. The Company has protested the FTB's adjustments and does not expect that significant additional tax expense will result.

Note 12 Stock-Based Compensation

Prior to July 25, 2018, the Company issued stock-based compensation awards to its directors and employees under the 2008 Long-Term Incentive Plan ("2008 LTIP"). The 2008 LTIP permitted the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards and cash incentive awards for up to 2,000,000 shares of common stock. As of July 25, 2018, the Company ceased granting awards under the 2008 LTIP.

On July 25, 2018, the stockholders approved the 2018 Long-Term Incentive Plan ("2018 LTIP"). As with the 2008 LTIP, the 2018 LTIP permits the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards and cash incentive awards. The plan will be in effect for ten years. The maximum number of shares that can be awarded under the plan is 1,293,109 shares of common stock. As of December 31, 2018, no shares had been awarded under the 2018 LTIP.

No stock options were granted during the years ended December 31, 2018 and December 31, 2017.

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

The following table summarizes stock option activity during the years ended December 31, 2018 and 2017:

	2018		2017	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding at beginning of year	537,500	$ 2.19	540,625	$ 2.18
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited or expired during the year	-	-	(3,125)	4.80
Outstanding at end of year	537,500	$ 2.19	537,500	$ 2.19
Exercisable at end of year	267,500	$ 2.71	177,500	$ 3.26

For each year of 2018 and 2017, the Company recorded $39 thousand of stock-based compensation expense related to stock options. As of December 31, 2018, unrecognized compensation cost related to nonvested stock options granted under the plan was $84 thousand. The cost is expected to be recognized over a period of 2.15 years.

Options outstanding and exercisable at year-end 2018 were as follows:

	Outstanding				Exercisable		
Grant Date	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
January 21, 2009	7,500	0.05 years	$ 4.00		7,500	$ 4.00	
March 18, 2009	75,000	0.21 years	$ 4.98		75,000	$ 4.98	
January 21, 2010	5,000	1.05 years	$ 6.00		5,000	$ 6.00	
February 24, 2016	450,000	7.15 years	$ 1.62		180,000	$ 1.62	
	537,500	6.02 years	$ 2.19	$ -	267,500	$ 2.71	$ -

In March 2016, the Company awarded 120,483 shares of restricted stock to its Chief Executive Officer ("CEO") under the 2008 LTIP. A restricted stock award is valued at the closing price of the Company's stock on the date of such award. Subject to certain performance restrictions, 100,000 shares of restricted stock fully vested over a two-year period in 2018 and the remaining 20,483 shares shall vest over a three-year period. Stock-based compensation expense is recognized on a straight-line basis over the vesting period. The Company recorded $36 thousand and $105 thousand of stock-based compensation expense related to this award during the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, unrecognized compensation cost related to non-vested restricted stock award was $3 thousand which is expected to be recognized over a period of 3 months.

In January 2018 and April 2017, the Company awarded 18,906 and 30,002, respectively, shares of common stock to its directors under the 2008 LTIP, all of which are fully vested. The Company recorded $45 thousand and

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

$53 thousand of compensation expense during the years ended December 31, 2018 and 2017, respectively, based on the fair value of the stock, which was determined using the average of the high and the low price of the stock on the date of the award.

In February 2018 and April 2017, the Company also awarded 97,195 and 129,270 of cash-settled restricted stock units ("RSUs") to its CEO under the 2008 LTIP. All RSUs vest at the end of two years from the date of the grant and are subject to forfeiture until vested. Each RSU entitles the CEO to receive cash equal to the fair market value of one share of common stock on the applicable payout date. Compensation expense is determined based on the fair value of the award and is re-measured at each reporting period and is classified as a liability in the consolidated statements of financial condition. The Company recorded $73 thousand and $102 thousand of compensation expense related to these awards during the years ended December 31, 2018 and 2017, respectively.

Note 13 Capital and Regulatory Matters

The Bank's capital requirements are administered by the Office of the Comptroller of the Currency ("OCC") and involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the OCC. Failure to meet capital requirements can result in regulatory action.

The federal banking regulators approved final capital rules ("Basel III Capital Rules") in July 2013 implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules prescribe a standardized approach for calculating risk-weighted assets and revised the definition and calculation of Tier 1 capital and Total capital, and include a new Common Equity Tier 1 capital ("CET1") measure. Under the Basel III Capital Rules, the currently effective minimum capital ratios are:

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

4.0% Tier 1 capital to average consolidated assets (known as the "leverage ratio").

A new capital conservation buffer was also established above the regulatory minimum capital requirements. This capital conservation buffer was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase each subsequent year by an additional 0.625% until it reaches its final level of 2.5% on January 1, 2019.

The Basel III Capital rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are now required to meet the following increased capital level requirements in order to qualify as "well capitalized": (i) a CET1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). At December 31, 2018 and 2017, the Bank's level of capital exceeded all regulatory capital requirements and its regulatory capital ratios were above the minimum levels required to be considered well

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

capitalized for regulatory purposes. Actual and required capital amounts and ratios as of the periods indicated are presented below.

	Actual		Minimum Capital Requirements		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2018:						
Tier 1 (Leverage)	$ 49,433	12.03%	$ 16,439	4.00%	$ 20,549	5.00%
Common Equity Tier 1	$ 49,433	19.32%	$ 18,494	4.50%	$ 16,634	6.50%
Tier 1	$ 49,433	19.32%	$ 24,659	6.00%	$ 20,472	8.00%
Total Capital	$ 52,417	20.48%	$ 32,879	8.00%	$ 25,590	10.00%
December 31, 2017:						
Tier 1 (Leverage)	$ 47,838	11.39%	$ 16,798	4.00%	$ 20,997	5.00%
Common Equity Tier 1	$ 47,838	18.63%	$ 11,557	4.50%	$ 16,693	6.50%
Tier 1	$ 47,838	18.63%	$ 15,409	6.00%	$ 20,545	8.00%
Total Capital	$ 51,059	19.88%	$ 20,545	8.00%	$ 25,681	10.00%

Note 14 Loan Commitments and Other Related Activities

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk for credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2018	2017
	(In thousands)	
Commitments to make loans	$ 10,875	$ 1,493
Unused lines of credit variable rates	1,491	2,582

Commitments to make loans are generally made for periods of 60 days or less. At year-end 2018, loan commitments consisted of six multi-family residential loans with initial five year interest rates ranging from 4.50% to 4.68%.

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Note 15 Parent Company Only Condensed Financial Information

Condensed financial information of Broadway Financial Corporation follows:

Condensed Balance Sheet
December 31,

	2018	2017
	(In thousands)	
Assets		
Cash and cash equivalents	$ 156	$ 400
Investment in bank subsidiary	51,221	50,594
Other assets	2,225	2,015
Total assets	$ 53,602	$ 53,009
Liabilities and stockholders' equity		
Junior subordinated debentures	$ 5,100	$ 5,100
Accrued expenses and other liabilities	66	178
Stockholders' equity	48,436	47,731
Total liabilities and stockholders' equity	$ 53,602	$ 53,009

Condensed Statements of Income
Years ended December 31,

	2018	2017
	(In thousands)	
Interest income	$ 25	$ 28
Interest expense	(243)	(194)
Other expense	(469)	(730)
Loss before income tax and undistributed subsidiary income	(687)	(896)
Income tax benefit (expense)	205	(326)
Equity in undistributed subsidiary income	1,297	3,091
Net income	$ 815	$ 1,869

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Condensed Statements of Cash Flows
Years ended December 31,

	2018	2017
	(In thousands)	
Cash flows from operating activities		
Net income	$ 815	$ 1,869
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed subsidiary income	(1,297)	(3,091)
Change in other assets	(210)	330
Change in accrued expenses and other liabilities	(112)	(183)
Net cash used in operating activities	(804)	(1,075)
Cash flows from investing activities		
Dividends from bank subsidiary	600	500
Net cash provided by investing activities	600	500
Cash flows from financing activities		
Common stock repurchased for tax withholdings	(108)	-
Proceeds from repayment of ESOP loan	68	80
Net cash (used in) provided by financing activities	(40)	80
Net change in cash and cash equivalents	(244)	(495)
Beginning cash and cash equivalents	400	895
Ending cash and cash equivalents	$ 156	$ 400

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Notes to Consolidated Financial Statements (continued)

December 31, 2018 and 2017

Note 16 Earnings Per Common Share

The factors used in the earnings per common share computation follow:

	2018	2017
	(Dollars in thousands, except share and per share)	
Net income	$ 815	$ 1,869
Less net income attributable to participating securities	(3)	(5)
Income available to common stockholders	$ 812	$ 1,864
Weighted average common shares outstanding for basic earnings per common share	26,755,405	26,678,917
Add: dilutive effects of assumed exercises of stock options	-	27,117
Add: dilutive effects of unvested restricted stock awards	7,044	49,448
Weighted average common shares outstanding for diluted earnings per common share	26,762,449	26,755,482
Earnings per common share basic	$ 0.03	$ 0.07
Earnings per common share diluted	$ 0.03	$ 0.07

Stock options for 267,500 shares and 87,500 shares of common stock for the years ended December 31, 2018 and 2017, respectively, were not considered in computing diluted earnings per common share because they were anti-dilutive.

Note 17 Subsequent Events

There was no major subsequent event to be disclosed as of March 29, 2019.